

Management's Discussion and Analysis

This section of the City of Chattanooga's annual financial report presents a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2002. Please read it in conjunction with the transmittal letter found at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Chattanooga exceeded its liabilities at the close of the most recent fiscal year by \$1.7 billion (net assets). Of this amount, \$71 million may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net assets).
- While the net assets of our business-type activities increased \$7.4 million the net assets of our governmental activities decreased \$13.8 million. The City's decision to implement retroactive infrastructure reporting in the first year of GASB 34 resulted in a \$35 million increase in depreciation expense.
- During the year, the City generated \$192 million in taxes and other revenues for governmental programs. This compares with \$204 million of program expenses, including \$41 million depreciation expense.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$79.9 million, a decrease of \$6.6 million in comparison with the prior year. Approximately three-fourths of this total amount, \$58.3 million, is available for spending at the City's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$28.9 million, or 18% of total General Fund expenditures and transfers out.
- The City's primary government debt decreased by \$15.3 million (5.1%) during the current fiscal year. This resulted from normal debt reduction with no new bond obligations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Chattanooga's financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The City of Chattanooga implemented the new reporting model required under Governmental Accounting Standards during fiscal year 2002. As a result there are no comparative numbers for government-wide data presented in this discussion. Comparative information will be provided in future years.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with both long-term and short-term information about the City's overall financial status in a manner similar to a private-sector business.

There are two government-wide financial statements:

- **Statement of Net Assets** — presents information about the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- **Statement of Activities** — presents information showing how the City's net assets changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) and other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and social services. The business-type activities include the City's electric, sewer and storm water systems, as well as solid waste disposal and housing operations. The Electric Power Board (EPB), although legally separate, functions for all practical purposes as a department of the City and therefore has been included as a business-type activity of the primary government.

The government-wide financial statements include not only the City itself (known as the *primary government*) but also three legally separate entities (known as *component units*). The Chattanooga Metropolitan Airport Authority, the Chattanooga Area Regional Transportation Authority (CARTA) and the Southside Redevelopment Corporation, although legally separate, are important because the City is financially accountable for them. Separately issued, audited financial reports can be obtained from:

Chattanooga Metropolitan Airport Authority
P. O. Box 22444
Chattanooga, TN 37422

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

The government-wide financial statements can be found beginning on page 3 of this report.

Fund financial statements. The fund financial statements provide more detailed information about the most significant funds—not the City as a whole. Some funds are required by State or Federal law and by bond covenants; other funds are established by the City Council to help it control and manage money for designated or restricted purposes (i.e. economic development projects) or to show that it is meeting legal responsibilities for how certain taxes, grants and other monies are used (i.e. grants received from the U. S. Department of Housing and Urban Development).

All the funds of the City can be divided into three types of funds: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

- **Governmental funds** — The City's basic services are included in governmental funds. The focus of these funds is on (1) how cash and other financial assets that can readily be converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending. This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the government-wide statements, we provide additional information after the governmental

fund statement that explains the differences between the long-term view and the short-term view.

The City maintains a general fund, multiple special revenue funds, a debt service fund and a capital projects fund as governmental funds. Information is presented separately in the governmental statements for the general fund and the capital projects fund since both of these are considered major funds. Data for the other funds is combined into a single column. Individual fund data for each of these nonmajor governmental funds is provided in the supplementary section of this report.

The City of Chattanooga adopts a budget for all governmental funds. A budgetary comparison for the General Fund is found in the fund statements of this report; comparisons for the other governmental funds, except the capital projects fund, are provided in the supplementary section of this report. Budgetary comparisons are provided to demonstrate compliance with the budget.

The governmental fund financial statements begin on page 6 of this report.

- **Proprietary funds** — Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The City of Chattanooga maintains two different types of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are the same as business-type activities in the government-wide financial statements but provide more detail and additional information, such as cash flows. The Electric Power Board, Interceptor Sewer System and Solid Waste are considered major funds. The other funds (Storm Water and Housing Management) are combined into a single column in the proprietary fund financial statements with individual fund data provided in the supplementary section of this report.

Internal service funds provide services for other City activities. The City of Chattanooga accounts for maintenance of City vehicles and risk financing in internal service funds. Because both of these services benefit predominantly governmental rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

The proprietary fund statements begin on page 11 of this report.

- **Fiduciary funds** — These funds provide information about the financial relationships where the City acts solely as a trustee or fiduciary for the benefit of others to whom the resources belong. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance City operations. All of the City's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets in the fund financial statements.

The fiduciary fund financial statements begin on page 16 of this report.

Notes to the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The additional information contained in these notes is essential to a full understanding of the information provided in the government-wide and fund financial statements.

The notes to the financial statements can be found beginning on page 20 of this report.

Other information. In addition to the basic financial statements discussed above, this report also presents required supplementary information about the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds and nonmajor enterprise funds are presented as additional supplementary information. Also included as additional supplementary information are budget to actual comparisons for governmental funds other than the general fund and capital projects fund.

Both the required and additional supplementary information can be found following the notes to the financial statements.

Financial Analysis Of The City As A Whole

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Chattanooga, assets exceeded liabilities by \$1.7 billion at the close of the most recent fiscal year. By far the largest portion of the City's net assets (92 percent) reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt used to acquire those assets that is still outstanding. Because capital assets are used to provide services to citizens the assets are not available for future spending.

An additional portion of the City's net assets, (4 percent) represents resources that are restricted in how they may be used. The remaining balance of \$71.2 million may be used to meet the City's ongoing obligations. At the end of the fiscal year, the City of Chattanooga is able to report a positive balance in all categories of net assets: for the government as a whole, as well as for its governmental activities and its business-type activities.

In order to provide a complete picture of the net assets of the City, information is provided separately for the net assets of governmental and business-type activities. See the table below.

City of Chattanooga's Net Assets

(in thousands)

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Current and other assets	\$ 195,034	\$ 192,418	\$ 387,452
Capital assets	1,232,415	584,353	1,816,768
Total assets	1,427,449	776,771	2,204,220
Long-term debt outstanding	86,136	197,091	283,227
Other liabilities	103,989	119,847	223,836
Total liabilities	190,125	316,938	507,063
Net assets:			
Invested in capital assets, net of debt	1,157,120	407,816	1,564,936
Restricted	24,879	36,124	61,003
Unrestricted (deficit)	55,325	15,893	71,218
Total net assets	\$ 1,237,324	\$ 459,833	\$ 1,697,157

Changes in Net Assets

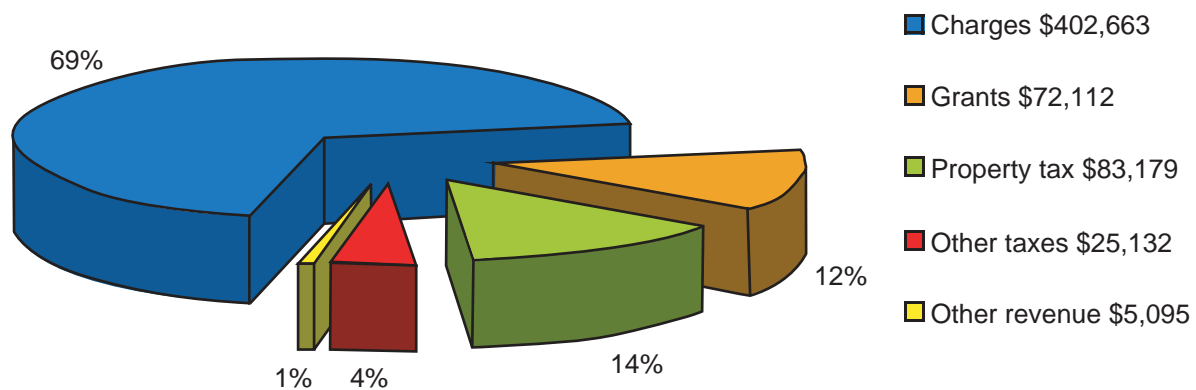
Net assets of the City's governmental activities decreased 1.1 percent to \$1.24 billion. Of that balance \$1.18 billion are either restricted on how they may be used or are invested in capital assets (buildings, roads, bridges, and so on). Therefore \$55 million remains to meet the City's ongoing obligations to citizens and creditors.

During the same period the net assets of the business-type activities increased 1.6 percent to \$460 million. However the City generally can only use these net assets to finance the continuing operations of the electric system, sewer system, storm water system, solid waste operations and housing management operations.

The graphs below summarize the sources of the City's total revenues of \$588 million and total program expenses of \$595 million.

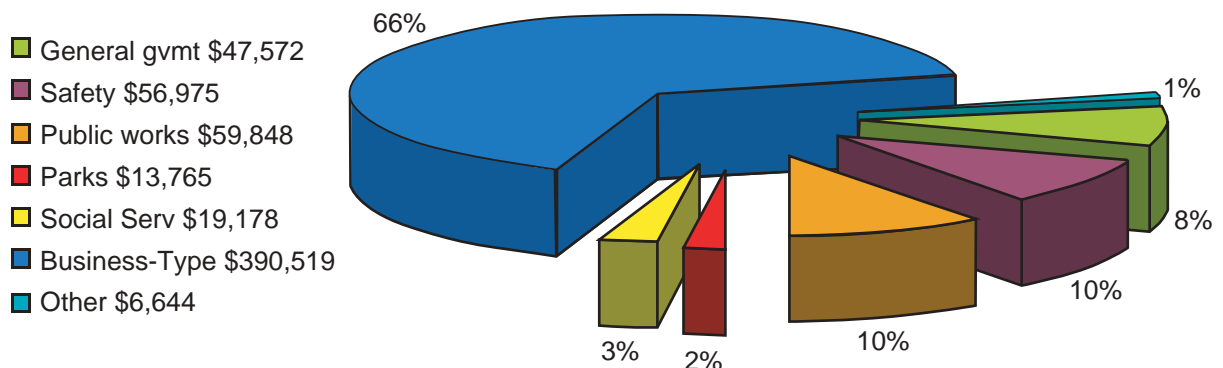
City Wide Sources of Revenue

(In thousands)



City Wide Program Expense

(In thousands)



In order to provide a complete picture of the changes in net assets of the City, information is provided separately for the net assets of governmental and business-type activities. See the table below.

City of Chattanooga's Changes in Net Assets

(in thousands)

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Revenues			
Program revenues:			
Charges for services	\$ 15,876	\$ 386,787	\$ 402,663
Grants	31,746	5,544	37,290
General revenues:			
Property taxes	83,179	—	83,179
Other taxes	25,132	—	25,132
Grants	34,822	—	34,822
Investment income	1,639	3,456	5,095
Total revenues	<u>192,394</u>	<u>395,787</u>	<u>588,181</u>
Expenses			
Government activities:			
General government	47,572	—	47,572
Public safety	56,975	—	56,975
Public works	59,848	—	59,848
Parks and recreation	13,765	—	13,765
Social services	19,178	—	19,178
Payments to components	2,977	—	2,977
Interest on long-term debt	3,668	—	3,668
Business-type activities:			
Electric utility	—	346,821	346,821
Sewer	—	31,565	31,565
Solid waste	—	6,429	6,429
Storm water	—	4,774	4,774
Housing management	—	930	930
Total expenses	<u>203,983</u>	<u>390,519</u>	<u>594,502</u>
Excess (deficiency) before transfers	(11,589)	5,268	(6,321)
Transfers	<u>(2,165)</u>	<u>2,165</u>	<u>—</u>
Increase (decrease) in net assets	<u>\$ (13,754)</u>	<u>\$ 7,433</u>	<u>\$ (6,321)</u>

The following will consider the operations of governmental and business-type activities separately and in greater detail.

Governmental Activities

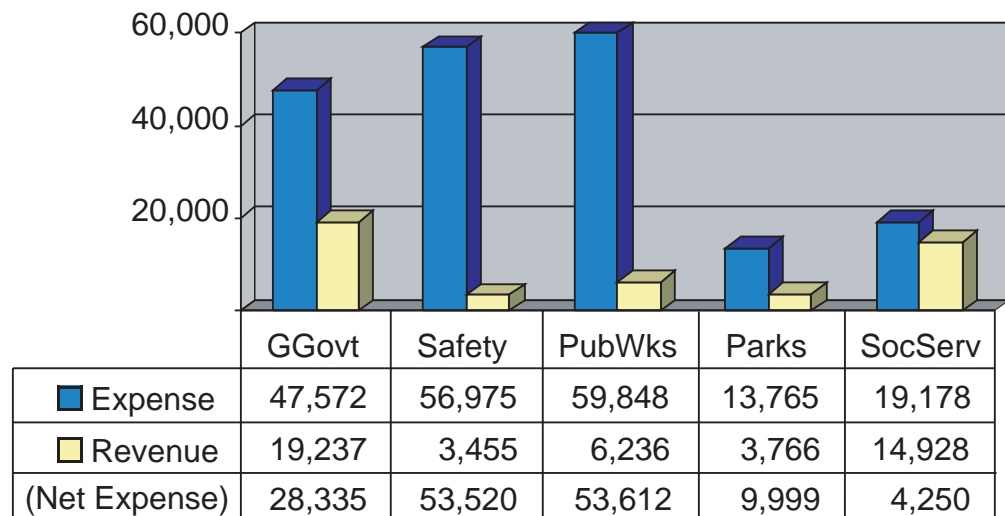
Current fiscal year revenues for the City's governmental activities were \$192 million while the same period expenses were \$204 million.

- The single largest source of governmental activity revenue, property taxes, accounted for almost all of the \$16 million revenue increase. This was primarily due to an increase in the City's property tax rate.
- As previously stated, this was the first year to record infrastructure assets for governmental activities resulting in a \$35 million increase in depreciation expense.

The graphs below show the revenue generated by the five largest programs of the City as compared with the expenses associated with providing each service. This will show the net cost, or the financial burden placed on City taxpayers for each program. Also presented are the major sources of revenue for governmental activities.

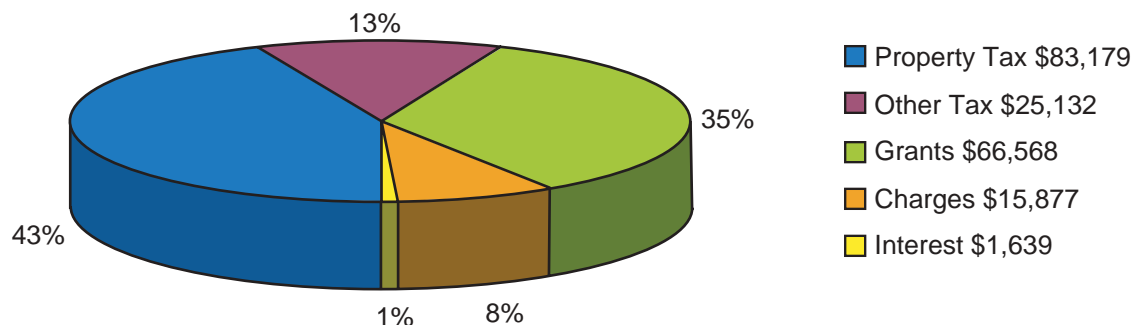
Expenses and Program Revenues - Governmental Activities

(In thousands)



Revenues by Source - Governmental Activities

(In thousands)

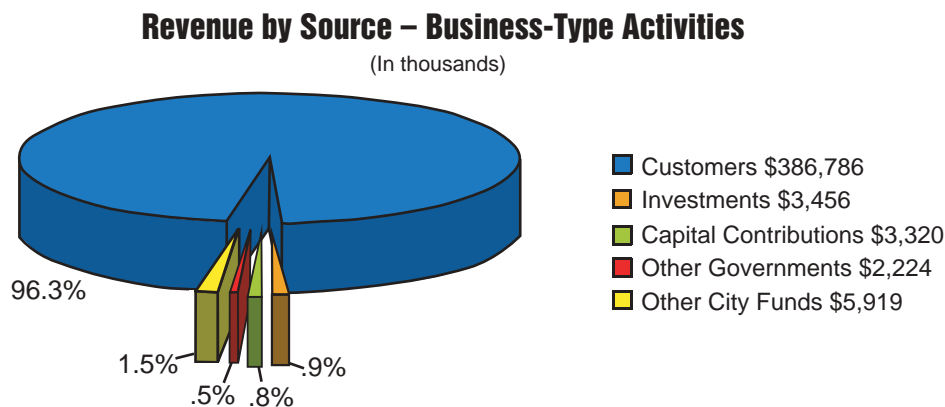


Business-type Activities

Revenues for the City's business-type activities were \$396 million for the year just completed, a decrease of \$11.2 million or 2.8 percent. However, the same period saw a \$17.8 million or 4.3 percent decrease in expenses to \$394 million.

- The largest source of business-type activity revenue is generated from the Electric Power Board. Sales of electricity decreased 4.2 percent to \$334.8 million. However, there was an offsetting decrease of 4.5 percent in operating expenses. The change in usage is attributed to milder weather and the bankruptcy of a major industrial customer.
- Operating revenues for the Interceptor Sewer System were down \$567,000 due to the loss of a major industrial customer while operating expenses decreased \$1,332,000. This resulted in a \$765,000, or 12.9 percent, increase in net income over last year."
- As a result of an aggressive capital program to meet State and Federal landfill requirements, the Solid Waste Fund remains in a negative net asset position. Excluding the special item to transfer waste collection assets to the General Fund, Solid Waste posted a \$585,000 net income for the year.
- Revenues from operations in the Storm Water Fund rose 6.5 percent to \$5.5 million. This is due to increased development and recent annexation. However, operational costs increased during the same period by 15.0 percent to \$3.4 million as a result of various, small citywide projects that were not capital in nature.
- The Housing Management Fund, new for the year, had a 96% occupancy rate for one apartment complex and an 88% occupancy rate for another. The fund reported \$1 million in rental income for the year, which when combined with capital contributions, earned a net income of \$3.9 million.

The chart below shows the operating revenue (including General Fund appropriations) generated by each business-type activity of the City as compared with the operating expenses associated with providing each service. Also presented are the major sources of revenue for business-type activities.



Operating Expenses and Revenues – Business-Type Activities (in thousands)

	Electric	Sewer	Solid Waste	Storm Water	Housing
Expense	\$ 343,405	\$ 25,403	\$ 4,556	\$ 3,409	\$ 876
Revenue	346,607	32,076	1,613	5,465	1,025
Net operating income (loss)	\$ 3,202	\$ 6,673	\$ (2,943)	\$ 2,056	\$ 149

Financial Analysis Of The City's Funds

The City of Chattanooga uses fund accounting to help it control and manage money for particular purposes or to demonstrate compliance with legal requirements. More detailed analysis is provided below for the City's funds.

Governmental Funds

Governmental funds focus on providing information on the near-term flow of resources. As the City completed the year, its governmental funds reported a combined fund balance of \$79.9 million. Approximately 87 percent of this amount (\$69.3 million) constitutes unreserved fund balance, which is available for spending at the City's discretion. All of the governmental funds reported a positive ending fund balance. Information about the major governmental funds is presented below.

General Fund. This fund is the chief operating fund of the City of Chattanooga. At the end of the current fiscal year, unreserved fund balance was \$34.4 million, of which \$5.5 million is designated for future spending. Total fund balance of the City's general fund increased by 7.4 percent or \$2.5 million to \$36 million during the fiscal year. Key factors in this growth are as follows:

- As a result of a countywide property reappraisal the City's property tax rate was reduced from 2.31 cents to a certified rate of 2.036 cents per \$100 assessed valuation. This rate was subsequently changed to 2.516 cents by City Council resulting in increased property tax revenues of \$15.7 million.
- The increased revenues were used to offset increases in medical insurance, salaries and capital expenditures.

Capital Projects Fund. This fund focuses on project-to-date costs for many projects within the City. At the end of the year, the fund reported \$24.9 million in fund balance of which \$8.6 million was reserved for on-going projects already begun. This is a \$11.3 million decrease from last year.

- The City spent \$25.4 million on capital expenditures, primarily from beginning fund balance which included bond proceeds received last year to finance these projects.
- Current year expenditures included \$2.3 million for building renovations and equipment for the police and fire departments; \$8.7 million for parks and recreation complexes; and \$9.3 million for street projects.

Proprietary Funds

As the City completed the fiscal year its proprietary funds, which include both enterprise funds and internal service funds, had a combined fund balance of \$461 million. Of this amount, \$53 million was available to meet on-going obligations with the majority, \$408 million, invested in capital assets. Since the major enterprise funds comprise 99 percent of the combined proprietary fund balance, key factors within those funds are presented below:

- Net assets of the Electric Power Board increased \$3.3 million to \$229.3 for fiscal year 2002. \$2.9 million of that increase is in unrestricted net assets, those that can be used to finance day-to-day operations. Revenue from electric customers fell by \$14.7 million but the associated operating expenses fell by \$14.8 million, more than offsetting the reduction. The telecommunications segment saw a net increase of \$1.5 million in net assets.

- The Interceptor Sewer System reported a net increase of \$1.9 million in net assets to \$223.1 million. \$12.1 million is unrestricted net assets, those that can be used to finance on-going operations; an additional \$22.1 million is set aside for capital improvements. There was a 2.9 percent decrease in sewer service charge revenue due to various factors including the closure of a local foundry and increase usage of secondary metering. This was partially offset by increased charges to new customers from recent expansion into Northwest Georgia.
- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency issued an unfunded Federal mandate establishing closure and postclosure care requirements for such landfills. To date the City has accrued liabilities of \$5.6 million for a closed landfill and \$3.1 million for a landfill currently in operation. Much of the burden of these costs is being financed through general obligation bonds.

General Fund Budgetary Highlights

There were no differences between original and final budgets at the fund level. The differences shown were due to reallocations within General Fund as authorized in the original budget ordinance. General government expenditures were increased almost \$895,000, or 2.3%, primarily due to increased health insurance costs. This increase was funded from unexpended appropriations in other departments within General Fund.

When comparing the amended budgeted revenues with appropriations, the City anticipated a deficit of \$308,970. While actual revenues were less than budget by more than \$2.8 million (primarily due to reduced investment income and sales taxes), expenditures were less than budgetary estimates by nearly \$5 million resulting in a net income of \$2.3 million in General Fund.

Capital Asset And Debt Administration

Capital Assets

At the end of this year, the City had \$1.8 billion (net of accumulated depreciation) invested in capital assets. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The table below shows the investment in capital assets by both governmental activities and business-type activities.

City of Chattanooga's Capital Assets

(net of depreciation, in thousands of dollars)

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Land & Easements	\$ 35,738	\$ 14,222	\$ 49,960
Buildings	26,034	47,322	73,356
Equipment	17,341	197,770	215,120
Improvements	6,484	—	6,484
Infrastructure	1,139,908	314,827	1,454,735
Work in progress	6,910	10,203	17,113
Total	\$ 1,232,415	\$ 584,353	\$ 1,816,768

This year's major capital asset additions include:

- General infrastructure assets of \$1.4 billion. This includes retroactive infrastructure assets for early compliance with GASB 34 and \$2 million constructed in the current fiscal year.
- Electric Power Board investment of \$18.1 in plant assets for the year. This includes \$16 million in power distribution systems and \$2.6 million for telecommunications.
- \$11.9 million was capitalized as new infrastructure costs for the Interceptor Sewer System.
- New Housing Management Fund acquired \$5.9 million in land, apartment buildings and work-in-progress.
- Stormwater capitalized \$3 million in infrastructure costs.
- Parks & Recreation completed projects including Brainerd Recreation Complex \$4.4 million, South Chattanooga Recreation Complex \$3.4 million, Hixson Aquatics Center \$1.9 million.
- Completion of a new fire hall \$2.4 million.

The City's capital improvement program anticipates spending another \$263.8 million for capital projects over the next five years for various projects. There are plans to issue an additional \$97 million in debt during fiscal year 2003 to help finance these projects. Nearly 90% of this debt will be funded by the recently imposed hotel-motel tax (\$55 million) and sewer revenues (\$30 million).

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Debt

At year-end the City had \$301.7 million in long-term debt outstanding – a decrease of 5 percent over last year -- as shown in the table below.

City of Chattanooga's Long-term Debt						
(in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
General obligation bonds (backed by the City)	\$ 68,794	\$ 72,014	\$ 159,206	\$ 169,726	\$ 228,000	\$ 241,740
Revenue bonds (backed by specific revenues) —	—	—	38,400	40,000	38,400	40,000
Notes payable	6,894	8,226	9,523	8,029	16,417	16,255
Capital leases	—	144	288	304	288	448
Compensated absences	15,290	15,399	3,344	3,930	18,634	19,329
Total	\$ 90,978	\$ 95,783	\$ 210,761	\$ 221,989	\$ 301,739	\$ 317,772

- The City of Chattanooga maintains a “AA” rating from both Standard & Poor’s and Fitch Investor’s Service for general obligation debt.
- State statutes limit the amount of general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City’s corporate limits. For the current fiscal year that limit is \$320.2 million.

During the year the City entered into the following new debt:

- General obligation refunding bonds were issued for \$58.1 million in April 2002. This was to refund \$57.9 million in governmental and business-type debt. It is expected to yield \$2.7 million in savings.
- Other smaller debt increases included an additional \$22,575 draw on a line of credit with the Tennessee Municipal Bond Fund for general government capital improvements and an additional \$1.9 million draw on a loan with the State of Georgia for sewer system improvements.

More detailed information about the City’s long-term liabilities is presented in the notes to the financial statements.

Economic Factors And Next Year’s Budgets And Rates

The following indicators were taken into account when adopting the General Fund budget for 2003:

- Unemployment now stands at 3.8% (July 2002), up from 3.2% a year ago. However unemployment in Chattanooga remains well below the national rate of 5.9% and the state rate of 4.9% for the same period.
- Growth in the local property tax base remains strong as indicated by the record number of building permits. The total value of all construction for calendar year 2001 rose to \$365.7 million, a 29% increase over the previous year.

Anticipated revenues in the General Fund budget are \$169.1 million, virtually unchanged from the 2002 budget. Property tax collections are expected to increase 2.8% in the coming year. Investment income and intergovernmental revenue are anticipated to decrease \$930,000 and \$785,000 respectively. These will be partially offset by an increase of service charges of \$300,000 and miscellaneous revenue of \$375,000. Budgeted expenditures are expected to decrease almost 0.2% to \$169 million from \$169.4 million in 2002. With the exception of salaries and medical costs, departmental operations are budgeted at less than the prior year. No decrease in fund balance of General Fund is expected for fiscal year 2003.

As for the City’s business-type activities, we expect that the 2003 results should see a modest increase to net assets.

Contacting The City’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

City of Chattanooga Finance Department
100 East 11th Street
Chattanooga, Tennessee 37402
(423) 757-5232

Report of Independent Certified Public Accountants
on Financial Statements, Supplementary Information, and
Schedule of Expenditures of Federal and State Awards

To the Honorable Mayor and
Members of the City Council
City of Chattanooga, Tennessee

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chattanooga, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of EPB, which represent 46 percent and 89 percent, respectively, of the assets and revenues of the business-type activities. We also did not audit the financial statements of the Chattanooga Metropolitan Airport Authority, which represent 23 percent and 31 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for EPB and the Chattanooga Metropolitan Airport Authority, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," as of June 30, 2002.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages one through twelve of the Financial Section and the required supplementary information on pages 54-64 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chattanooga, Tennessee's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The introductory section, combining and individual nonmajor fund and component unit financial statements, budgetary comparison schedules of special revenue funds and the debt service fund, financial schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund and component unit financial statements, budgetary comparison schedules of special revenue funds and the debt service fund, and financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Haylett, Lewis & Bieter, PLLC

Chattanooga, Tennessee
November 12, 2002

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2002

	Primary Government			Components Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 28,704,577	\$ 54,717,246	\$ 83,421,823	\$ 1,901,258
Investments	46,651,495	67,609,853	114,261,348	131,437
Receivables, net of allowance for uncollectibles	111,866,444	42,678,225	154,544,669	5,754,812
Due from component units	193,526	-	193,526	-
Deferred charges	-	1,988,161	1,988,161	1,992,899
Inventories	1,903,124	7,622,423	9,525,547	227,604
Prepaid items	1,216,420	-	1,216,420	417,077
Other assets	-	2,252,425	2,252,425	-
Restricted assets:				
Cash and cash equivalents	-	3,370,510	3,370,510	554,407
Investments	-	12,039,274	12,039,274	23,970,236
Receivables	-	107,495	107,495	367,562
Other	-	33,000	33,000	-
Net pension asset	4,498,226	-	4,498,226	-
Land and other nondepreciable assets	42,647,910	24,425,647	67,073,557	52,074,081
Other capital assets, net of accumulated depreciation	<u>1,189,767,171</u>	<u>559,926,983</u>	<u>1,749,694,154</u>	<u>124,860,006</u>
Total assets	<u>1,427,448,893</u>	<u>776,771,242</u>	<u>2,204,220,135</u>	<u>212,251,379</u>
LIABILITIES				
Accounts payable and accrued liabilities	15,126,706	69,788,424	84,915,130	4,463,815
Customer deposits	-	10,413,000	10,413,000	-
Due to primary government	-	-	-	193,526
Contracts payable	1,016,751	509,584	1,526,335	398,271
Deferred revenue	83,092,099	-	83,092,099	63,554
Accrued closure and post-closure care	-	8,705,591	8,705,591	-
Accrued postretirement benefits	-	10,578,000	10,578,000	-
Conservation advances	-	3,039,000	3,039,000	-
Other liabilities	-	3,599,000	3,599,000	23,093
Long-term liabilities:				
Due within one year	4,753,112	13,214,900	17,968,012	575,000
Due in more than one year	<u>86,135,923</u>	<u>197,090,778</u>	<u>283,226,701</u>	<u>145,369,260</u>
Total liabilities	<u>190,124,591</u>	<u>316,938,277</u>	<u>507,062,868</u>	<u>151,086,519</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,157,120,004	407,816,461	1,564,936,465	47,881,490
Restricted for:				
Capital projects	24,879,407	-	24,879,407	-
Debt service	-	-	-	15,535,806
Renewal and replacement	-	36,123,848	36,123,848	-
Unrestricted	<u>55,324,891</u>	<u>15,892,656</u>	<u>71,217,547</u>	<u>(2,252,436)</u>
Total net assets	<u>\$ 1,237,324,302</u>	<u>\$ 459,832,965</u>	<u>\$ 1,697,157,267</u>	<u>\$ 61,164,860</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2002

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 47,571,630	\$ 10,394,517	\$ 5,834,222	\$ 3,008,727
Public safety	56,975,310	741,994	1,982,245	730,938
Public works	59,848,473	1,738,788	4,496,260	884
Parks and recreation	13,765,543	2,909,057	786,215	70,700
Social services	19,178,170	92,345	14,835,632	-
Payments to component units	2,976,800	-	-	-
Interest on long-term debt	3,667,564	-	-	-
Total governmental activities	203,983,490	15,876,701	27,934,574	3,811,249
Business-type activities:				
Sewer	31,565,003	32,076,250	-	283,849
Solid waste/sanitation	6,428,615	1,613,264	-	40,338
Storm water	4,774,295	5,464,578	-	166,226
Housing management	930,550	1,025,353	-	3,803,975
Electric utility	346,821,000	346,607,000	-	1,250,000
Total business-type activities	390,519,463	386,786,445	-	5,544,388
TOTAL PRIMARY GOVERNMENT	\$ 594,502,953	\$ 402,663,146	\$ 27,934,574	\$ 9,355,637
Component units:				
Airport authority	\$ 7,705,488	\$ 5,858,182	\$ -	5,475,738
Transportation authority	13,947,581	3,574,890	2,401,077	8,223,958
Southside development	19,994,552	8,559,056	-	6,784,356
TOTAL COMPONENT UNITS	\$ 41,647,621	\$ 17,992,128	\$ 2,401,077	\$ 20,484,052
General revenues:				
Property taxes				
City-levied sales tax				
Liquor and beer taxes				
Other taxes				
Payments from primary government				
Unrestricted investment earnings				
Miscellaneous				
Grants and contributions not allocated to specific programs				
Special item - transfer of capital assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

The Notes to Basic Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Components Units
Governmental Activities	Business-type Activities	Total	
\$ (28,334,164)	\$ -	\$ (28,334,164)	\$ -
(53,520,133)	-	(53,520,133)	-
(53,612,541)	-	(53,612,541)	-
(9,999,571)	-	(9,999,571)	-
(4,250,193)	-	(4,250,193)	-
(2,976,800)	-	(2,976,800)	-
(3,667,564)	-	(3,667,564)	-
(156,360,966)	-	(156,360,966)	-
-	795,096	795,096	-
-	(4,775,013)	(4,775,013)	-
-	856,509	856,509	-
-	3,898,778	3,898,778	-
-	1,036,000	1,036,000	-
-	1,811,370	1,811,370	-
(156,360,966)	1,811,370	(154,549,596)	-
-	-	-	3,628,432
-	-	-	252,344
-	-	-	(4,651,140)
-	-	-	(770,364)
83,178,993	-	83,178,993	-
17,589,729	-	17,589,729	-
5,829,353	-	5,829,353	-
1,713,236	-	1,713,236	-
-	-	-	2,976,800
1,638,793	3,456,226	5,095,019	2,731,839
-	-	-	1,094,771
34,821,809	-	34,821,809	-
3,753,205	(3,753,205)	-	-
(5,918,505)	5,918,505	-	-
142,606,613	5,621,526	148,228,139	6,803,410
(13,754,353)	7,432,896	(6,321,457)	6,033,046
1,251,078,655	452,400,069	1,703,478,724	55,131,814
\$ 1,237,324,302	\$ 459,832,965	\$ 1,697,157,267	\$ 61,164,860

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2002

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 554,289	\$ 14,307,305	\$ 12,805,102	\$ 27,666,696
Investments	39,221,652	7,429,843	-	46,651,495
Receivables, net of allowance for uncollectibles:				
Taxes	80,009,856	-	-	80,009,856
Accounts	-	53,050	104,272	157,322
Notes	1,500,000	-	3,927,032	5,427,032
Other	3,644,233	-	-	3,644,233
Due from other funds	-	6,431,638	1,499,095	7,930,733
Due from component units	475,000	-	-	475,000
Due from other governments	19,158,025	900,901	2,313,846	22,372,772
Inventories	911,040	-	-	911,040
Prepaid items	8,000	1,208,420	-	1,216,420
Total assets	<u>\$ 145,482,095</u>	<u>\$ 30,331,157</u>	<u>\$ 20,649,347</u>	<u>\$ 196,462,599</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,706,887	\$ 4,308,448	\$ 1,190,718	\$ 9,206,053
Due to other funds	9,426,566	-	-	9,426,566
Due to other governments	2,300,797	126,551	-	2,427,348
Due to component units	281,474	-	-	281,474
Deferred revenue	93,798,676	-	374,438	94,173,114
Contracts payable	-	1,016,751	-	1,016,751
Total liabilities	<u>109,514,400</u>	<u>5,451,750</u>	<u>1,565,156</u>	<u>116,531,306</u>
Fund balances:				
Reserved for:				
Encumbrances	655,047	7,408,236	399,483	8,462,766
Inventories	911,040	-	-	911,040
Prepaid items	8,000	1,208,420	-	1,216,420
Unreserved, designated for:				
Debt service	-	-	5,497,083	5,497,083
Subsequent years' expenditures	5,532,885	-	-	5,532,885
Unreserved, undesignated, reported in:				
General fund	28,860,723	-	-	28,860,723
Capital projects fund	-	16,262,751	-	16,262,751
Special revenue and debt service funds	-	-	13,187,625	13,187,625
Total fund balances	<u>35,967,695</u>	<u>24,879,407</u>	<u>19,084,191</u>	<u>79,931,293</u>
Total liabilities and fund balances	<u>\$ 145,482,095</u>	<u>\$ 30,331,157</u>	<u>\$ 20,649,347</u>	<u>\$ 196,462,599</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2002

Differences in amounts reported for governmental activities in the statement of net assets on page 3:

Fund balances - total governmental funds	\$ 79,931,293
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds.	1,231,728,420
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	11,081,015
The General Pension Plan has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.	4,498,226
Internal service funds are used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	1,557,608
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.	<u>(91,472,260)</u>
Net assets of governmental activities	<u>\$ 1,237,324,302</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2002

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 107,767,598	\$ -	\$ -	\$ 107,767,598
Licenses and permits	6,276,409	-	-	6,276,409
Intergovernmental	40,070,794	3,245,813	20,281,001	63,597,608
Charges for services	3,105,976	-	68,493	3,174,469
Fines, forfeitures, and penalties	1,733,844	-	-	1,733,844
Investment income	1,470,601	440,475	467,316	2,378,392
Miscellaneous	4,112,982	658,562	2,697,722	7,469,266
Total revenues	<u>164,538,204</u>	<u>4,344,850</u>	<u>23,514,532</u>	<u>192,397,586</u>
EXPENDITURES				
Current:				
General government	44,822,763	-	15,553,691	60,376,454
Public safety	54,759,001	-	232,380	54,991,381
Public works	18,842,216	-	4,410,487	23,252,703
Parks and recreation	12,631,221	-	-	12,631,221
Community development	-	-	4,257,418	4,257,418
Capital outlay/fixed assets	-	25,356,715	975,533	26,332,248
Debt service:				
Principal retirement	-	-	4,658,954	4,658,954
Interest and fiscal charges	-	-	3,734,280	3,734,280
Total expenditures	<u>131,055,201</u>	<u>25,356,715</u>	<u>33,822,743</u>	<u>190,234,659</u>
Excess (deficiency) of revenues over (under) expenditure:	<u>33,483,003</u>	<u>(21,011,865)</u>	<u>(10,308,211)</u>	<u>2,162,927</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	963,361	10,675,641	13,175,598	24,814,600
Transfers out	(28,996,458)	(967,251)	(769,396)	(30,733,105)
Payments to component units	(2,976,800)	-	-	(2,976,800)
Proceeds of refunding bonds	-	-	16,377,267	16,377,267
Proceeds of bonds and notes	-	22,575	-	22,575
Refunded bond payment	-	-	(16,235,491)	(16,235,491)
Total other financing sources (uses)	<u>(31,009,897)</u>	<u>9,730,965</u>	<u>12,547,978</u>	<u>(8,730,954)</u>
Net change in fund balance	2,473,106	(11,280,900)	2,239,767	(6,568,027)
FUND BALANCE, beginning	<u>33,494,589</u>	<u>36,160,307</u>	<u>16,844,424</u>	<u>86,499,320</u>
FUND BALANCE, ending	<u>\$ 35,967,695</u>	<u>\$ 24,879,407</u>	<u>\$ 19,084,191</u>	<u>\$ 79,931,293</u>

The Notes to Basic Financial Statements are an integral part of this statement

CITY OF CHATTANOOGA, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2002

Differences in amounts reported for governmental activities in the statement of activities on pages 4 and 5:

Net change in fund balances - total governmental funds	\$ (6,568,027)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the Statement of Net Assets.	25,285,966
Depreciation expense on governmental capital assets are included in the governmental activities in the Statement of Activities.	(40,852,505)
Transfers of capital assets from business-type activities do not provide current financial resources and therefore are not reported in the governmental funds	3,753,205
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds; however, issuing long-term debt increases long-term liabilities in the statement of net assets. Repayments of long-term debt are reported as an expenditure in governmental funds, but are a reduction of long-term liabilities in the statement of net assets. In the current year, these amounts included principal repayments on bonds, notes and other debt.	4,606,514
The net revenues of internal service funds are reported with governmental activities	(11,148)
Certain items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds.	34,791
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds.	<u>(3,149)</u>
Change in net assets of governmental activities	<u>\$ (13,754,353)</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Taxes	\$ 108,538,241	\$ 108,538,241	\$ 107,767,598	\$ (770,643)
Licenses and permits	6,897,955	6,897,955	6,276,409	(621,546)
Intergovernmental	41,344,932	41,344,932	40,070,794	(1,274,138)
Charges for services	3,215,450	3,215,450	3,105,976	(109,474)
Fines, forfeitures, and penalties	1,652,500	1,652,500	1,733,844	81,344
Miscellaneous	6,436,453	6,436,453	6,310,159	(126,294)
Total revenues	<u>168,085,531</u>	<u>168,085,531</u>	<u>165,264,780</u>	<u>(2,820,751)</u>
EXPENDITURES				
General government	39,252,166	40,146,952	37,637,921	(2,509,031)
Finance and Administration	9,125,250	9,070,450	8,219,594	(850,856)
Police	34,258,554	33,958,468	33,827,824	(130,644)
Fire	21,809,578	21,569,578	20,961,799	(607,779)
Public Works	19,667,023	19,537,123	18,846,387	(690,736)
Parks and Recreation	13,122,084	12,952,084	12,747,734	(204,350)
Total expenditures	<u>137,234,655</u>	<u>137,234,655</u>	<u>132,241,259</u>	<u>(4,993,396)</u>
Excess of revenues over expenditures	<u>30,850,876</u>	<u>30,850,876</u>	<u>33,023,521</u>	<u>2,172,645</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	968,217	968,217	963,361	(4,856)
Transfers out	(29,151,263)	(29,151,263)	(28,996,458)	154,805
Payments to component units	(2,976,800)	(2,976,800)	(2,976,800)	-
Total other financing sources (uses)	<u>(31,159,846)</u>	<u>(31,159,846)</u>	<u>(31,009,897)</u>	<u>149,949</u>
Net change in fund balance	<u>\$ (308,970)</u>	<u>\$ (308,970)</u>	<u>2,013,624</u>	<u>\$ 2,322,594</u>
Adjustment for encumbrances			<u>459,482</u>	
Net change in fund balance (GAAP basis)			<u>2,473,106</u>	
FUND BALANCE at beginning of year (GAAP basis)			<u>33,494,589</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 35,967,695</u>	
EXPLANATION OF DIFFERENCES				
REVENUES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 165,264,780	
Employee benefit payments received from other funds			<u>(726,576)</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 164,538,204</u>	
EXPENDITURES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 132,241,259	
Adjustment for encumbrances			<u>(459,482)</u>	
Employee benefit payments for other funds			<u>(726,576)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 131,055,201</u>	

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS
June 30, 2002

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds	Total	
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 38,383,000	\$ 6,657,861	\$ 4,134,125	\$ 5,542,260	\$ 54,717,246	\$ 1,037,881
Investments	30,491,000	24,300,853	-	-	54,791,853	-
Receivables:						
Customer service	33,629,000	4,915,787	117,410	1,055,457	39,717,654	127,194
Other	761,000	497,684	-	-	1,258,684	-
Less allowance for doubtful accounts	(600,000)	(3,025)	(1,200)	(616,936)	(1,221,161)	-
Inventories	6,832,000	790,423	-	-	7,622,423	992,084
Due from other funds	-	-	10,671	-	10,671	1,495,833
Due from other governments	-	277,470	-	454,578	732,048	128,035
Other current assets	2,206,000	-	-	46,425	2,252,425	-
Total current assets	111,702,000	37,437,053	4,261,006	6,481,784	159,881,843	3,781,027
RESTRICTED ASSETS						
Cash and cash equivalents	-	15,661	3,354,849	-	3,370,510	-
Investments	-	1,330,137	9,988,159	720,978	12,039,274	-
Accounts receivable	-	182	97,360	9,953	107,495	-
Land	-	33,000	-	-	33,000	-
Total restricted assets	-	1,378,980	13,440,368	730,931	15,550,279	-
CAPITAL ASSETS						
Land	3,882,000	7,759,644	1,517,514	1,063,154	14,222,312	-
Buildings	15,004,000	37,438,195	1,717,098	3,073,850	57,233,143	589,948
Vehicles and machinery	346,907,000	11,277,013	5,113,778	1,138,915	364,436,706	1,139,495
Construction in progress	7,385,000	-	-	2,818,335	10,203,335	-
Sewer system	-	375,992,258	-	-	375,992,258	-
Storm water system	-	-	-	39,586,639	39,586,639	-
Telecommunications system	14,412,000	-	-	-	14,412,000	-
Less accumulated depreciation	387,590,000 (155,243,000)	432,467,110 (129,482,050)	8,348,390 (3,071,707)	47,680,893 (3,937,006)	876,086,393 (291,733,763)	1,729,443 (1,042,782)
Net capital assets	232,347,000	302,985,060	5,276,683	43,743,887	584,352,630	686,661
OTHER ASSETS						
Deferred charges	578,000	1,055,583	205,531	149,047	1,988,161	-
Conservation loans receivable	2,191,000	-	-	-	2,191,000	-
Noncurrent investments	12,818,000	-	-	-	12,818,000	-
Total other assets	15,587,000	1,055,583	205,531	149,047	16,997,161	-
Total assets	\$ 359,636,000	\$ 342,856,676	\$ 23,183,588	\$ 51,105,649	\$ 776,781,913	\$ 4,467,688

The Notes to Basic Financial Statements are an integral part of this statement.

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds	Total	
CURRENT LIABILITIES						
Current maturities of long-term liabilities	\$ 1,600,000	\$ 8,719,082	\$ 1,650,075	\$ 1,245,743	\$ 13,214,900	\$ -
Accounts payable and accrued liabilities	62,132,000	3,263,940	1,127,751	3,242,165	69,765,856	230,902
Accrued claims	-	-	-	-	-	2,173,000
Deposits	10,413,000	-	-	-	10,413,000	-
Due to other funds	-	-	-	10,671	10,671	-
Due to other governments	-	-	22,568	-	22,568	-
Contracts payable	-	426,224	35,508	47,852	509,584	-
Conservation advances	800,000	-	-	-	800,000	-
Other current liabilities	3,599,000	-	-	-	3,599,000	-
Total current liabilities	78,544,000	12,409,246	2,835,902	4,546,431	98,335,579	2,403,902
LONG-TERM LIABILITIES						
Notes and capital leases payable	-	7,791,296	-	1,576,339	9,367,635	-
Compensated absences	2,224,000	780,711	162,290	177,278	3,344,279	506,178
Accrued closure and post closure care	-	-	8,705,591	-	8,705,591	-
Revenue bonds payable	36,800,000	-	-	-	36,800,000	-
General obligation bonds payable	-	99,594,549	29,697,177	18,818,728	148,110,454	-
Deferred refunding	-	(2,633,265)	(712,259)	(509,680)	(3,855,204)	-
Original issue premium	-	1,788,689	894,542	640,383	3,323,614	-
Conservation advances	2,239,000	-	-	-	2,239,000	-
Accrued postretirement benefits	10,578,000	-	-	-	10,578,000	-
Total long-term liabilities	51,841,000	107,321,980	38,747,341	20,703,048	218,613,369	506,178
Total liabilities	130,385,000	119,731,226	41,583,243	25,249,479	316,948,948	2,910,080
NET ASSETS						
Invested in capital assets, net of related debt	193,476,000	188,839,152	2,650,271	22,851,038	407,816,461	-
Restricted for renewal and replacement	-	22,148,047	13,315,551	660,250	36,123,848	-
Unrestricted	35,775,000	12,138,251	(34,365,477)	2,344,882	15,892,656	1,557,608
Total net assets	\$ 229,251,000	\$ 223,125,450	\$ (18,399,655)	\$ 25,856,170	\$ 459,832,965	\$ 1,557,608

CITY OF CHATTANOOGA, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN NET ASSETS
 Year Ended June 30, 2002

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds	Total	
OPERATING REVENUES						
Charges for sales and services:						
Electric sales	\$ 334,788,000	\$ -	\$ -	\$ -	\$ 334,788,000	\$ -
Sewer charges	-	32,076,250	-	-	32,076,250	-
Waste charges	-	-	1,611,460	-	1,611,460	-
Stormwater fees	-	-	-	5,406,275	5,406,275	-
Rent	-	-	-	1,014,324	1,014,324	-
Other services	11,819,000	-	1,804	69,332	11,890,136	8,603,303
Total operating revenues	346,607,000	32,076,250	1,613,264	6,489,931	386,786,445	8,603,303
OPERATING EXPENSES						
Power purchases	272,997,000	-	-	-	272,997,000	-
Sewer plant operations	-	15,917,547	-	-	15,917,547	-
Solid waste operations	-	-	3,261,964	-	3,261,964	-
Storm water operations	-	-	-	2,549,508	2,549,508	-
Pump station operations	-	1,653,665	-	-	1,653,665	-
Housing management operations	-	-	-	735,873	735,873	-
Municipal garage operations	-	-	-	-	-	1,198,290
Maintenance and repairs	12,663,000	-	-	-	12,663,000	6,546,403
Depreciation and amortization	13,697,000	7,761,904	635,835	919,372	23,014,111	136,200
Closure/postclosure costs	-	-	658,087	-	658,087	-
Liability insurance	-	-	-	-	-	733,558
Other	44,048,000	69,764	-	80,283	44,198,047	-
Total operating expenses	343,405,000	25,402,880	4,555,886	4,285,036	377,648,802	8,614,451
OPERATING INCOME (LOSS)	3,202,000	6,673,370	(2,942,622)	2,204,895	9,137,643	(11,148)
NONOPERATING REVENUES (EXPENSES)						
Intergovernmental	-	277,470	40,338	1,906,487	2,224,295	-
Investment income	2,245,000	1,028,542	182,456	228	3,456,226	-
Interest expense	(1,960,000)	(6,098,144)	(1,669,800)	(1,190,499)	(10,918,443)	-
Other income (expense)	(1,456,000)	(63,979)	(202,929)	(229,310)	(1,952,218)	-
Total nonoperating revenues (expenses)	(1,171,000)	(4,856,111)	(1,649,935)	486,906	(7,190,140)	-
INCOME (LOSS) BEFORE CONTRIBUTIONS, TRANSFERS AND SPECIAL ITEMS						
	2,031,000	1,817,259	(4,592,557)	2,691,801	1,947,503	(11,148)
Capital contributions	1,250,000	6,379	-	2,063,714	3,320,093	-
Transfers in	-	43,394	5,177,828	697,283	5,918,505	-
Special item: Transfer of capital assets to governmental funds	-	-	(3,753,205)	-	(3,753,205)	-
CHANGE IN NET ASSETS	3,281,000	1,867,032	(3,167,934)	5,452,798	7,432,896	(11,148)
NET ASSETS, beginning	225,970,000	221,258,418	(15,231,721)	20,403,372	452,400,069	1,568,756
NET ASSETS, ending	\$ 229,251,000	\$ 223,125,450	\$ (18,399,655)	\$ 25,856,170	\$ 459,832,965	\$ 1,557,608

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2002

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 348,641,000	\$ 31,723,680	\$ 1,626,213	\$ 6,340,915	\$ 388,331,808	\$ 404,555
Receipts from interfund services provided	-	-	-	-	-	8,140,818
Receipts from operating grants	-	-	104,455	-	104,455	-
Payments to suppliers	(297,390,000)	(13,164,712)	(2,466,390)	(2,069,492)	(315,090,594)	(5,697,209)
Payments to employees	(21,069,000)	(4,601,656)	(1,160,295)	(1,548,102)	(28,379,053)	(2,889,914)
Payments in lieu of taxes	(7,784,000)	-	-	-	(7,784,000)	-
Net cash provided by (used in) operating activities	22,398,000	13,957,312	(1,896,017)	2,723,321	37,182,616	(41,750)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	43,394	5,177,828	697,283	5,918,505	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	-	26,546,003	10,526,302	8,551,142	45,623,447	-
Principal paid on capital debt	(1,600,000)	(8,380,242)	(1,545,287)	(1,170,838)	(12,696,367)	-
Payments to escrow agent	-	(24,377,321)	(10,594,386)	(7,617,089)	(42,588,796)	-
Interest paid on capital debt	(1,967,000)	(6,027,569)	(1,646,415)	(1,242,205)	(10,883,189)	-
Capital grants received	-	-	-	1,796,583	1,796,583	-
Capital contributions	1,250,000	6,379	-	2,063,714	3,320,093	-
Additions to capital assets	(24,093,000)	(13,517,480)	(626,437)	(8,088,053)	(46,324,970)	(17,536)
Proceeds from the sale of capital assets	-	-	256,686	19,128	275,814	-
Net cash flows used in capital and related financing activities	(26,410,000)	(25,750,230)	(3,629,537)	(5,687,618)	(61,477,385)	(17,536)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	(600,000)	(166,373,345)	(37,010,660)	(17,215,014)	(221,199,019)	-
Proceeds from sales and maturities of investments	-	174,159,300	31,723,428	19,394,468	225,277,196	-
Interest on investments	659,000	1,207,551	262,380	397,484	2,526,415	-
Net cash flows provided by (used in) investing activities	59,000	8,993,506	(5,024,852)	2,576,938	6,604,592	-
Net increase (decrease) in cash and cash equivalents	(3,953,000)	(2,756,018)	(5,372,578)	309,924	(11,771,672)	(59,286)
Cash and cash equivalents, beginning of year	42,336,000	9,429,540	12,861,552	5,232,336	69,859,428	1,097,167
Cash and cash equivalents, end of year	\$ 38,383,000	\$ 6,673,522	\$ 7,488,974	\$ 5,542,260	\$ 58,087,756	\$ 1,037,881
CLASSIFIED AS:						
Current assets	\$ 38,383,000	\$ 6,657,861	\$ 4,134,125	\$ 5,542,260	\$ 54,717,246	\$ 1,037,881
Restricted assets	-	15,661	3,354,849	-	3,370,510	-

The Notes to Basic Financial Statements are an integral part of this statement.

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	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
OPERATING INCOME (LOSS)	\$ 3,202,000	\$ 6,673,370	\$ (2,942,622)	\$ 2,204,895	\$ 9,137,643	\$ (11,148)
ADJUSTMENTS NOT AFFECTING CASH						
Depreciation and amortization	13,697,000	7,761,904	635,835	919,372	23,014,111	136,200
Provision for uncollectible accounts	37,000	220,072	1,065	217,186	475,323	-
Other	-	-	276,041	-	276,041	849
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	1,000,000	(850,112)	76,001	(820,781)	(594,892)	(57,930)
(Increase) decrease in due from other funds	-	11,944	6,074	-	18,018	(212,500)
(Increase) decrease in due from other governments	-	-	-	-	-	(2,295)
(Increase) decrease in inventory	(467,000)	17,417	-	-	(449,583)	(4,980)
(Increase) decrease in prepaid items	(336,000)	-	-	(9,979)	(345,979)	-
(Increase) decrease in deferred charges	(139,000)	8,126	-	-	(130,874)	-
Increase (decrease) in accounts payable	2,749,000	(92,126)	(249,981)	258,861	2,665,754	44,893
Increase (decrease) in accrued liabilities:	615,000	153,540	514,658	38,628	1,321,826	119,814
Increase (decrease) in other assets/liabilities:	2,156,000	111,926	109,280	(84,861)	2,292,345	-
Increase (decrease) in compensated absences	(116,000)	(58,749)	(322,368)	-	(497,117)	(54,653)
TOTAL ADJUSTMENTS	19,196,000	7,283,942	1,046,605	518,426	28,044,973	(30,602)
Net cash provided by (used in) operating activities	\$ 22,398,000	\$ 13,957,312	\$ (1,896,017)	\$ 2,723,321	\$ 37,182,616	\$ (41,750)
SIGNIFICANT NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Transfer of capital assets to governmental activities	\$ -	\$ -	\$ 3,753,205	\$ -	\$ 3,753,205	\$ -

CITY OF CHATTANOOGA, TENNESSEE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2002

	Pension Trust Funds	Private-Purpose Trust Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ (1,199,610)	\$ 20,288
Investments	353,385,353	51,446
Receivables:		
Accrued income	1,205,993	-
Contributions	79,589	-
Due from plan custodian	132,950	-
	<u> </u>	<u> </u>
Total assets	<u>353,604,275</u>	<u>71,734</u>
LIABILITIES		
Due to plan custodian	1,361,398	-
Accounts payable and accrued expenses	528,866	-
	<u> </u>	<u> </u>
Total liabilities	<u>1,890,264</u>	<u>-</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 351,714,011</u>	<u>\$ 71,734</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2002

	Pension Trust Funds	Private-Purpose Trust Funds
ADDITIONS		
Contributions:		
Employer	\$ 3,927,000	\$ -
Employee	<u>3,336,894</u>	<u>-</u>
Total contributions	<u>7,263,894</u>	<u>-</u>
Investment income (loss):		
Net appreciation (depreciation) in fair market value of investments	(24,442,854)	(6,026)
Interest	5,971,697	2,156
Dividends	<u>4,220,689</u>	<u>-</u>
	(14,250,468)	(3,870)
Less investment expense	<u>(1,811,748)</u>	<u>-</u>
Net investment loss	<u>(16,062,216)</u>	<u>(3,870)</u>
Total additions	<u>(8,798,322)</u>	<u>(3,870)</u>
DEDUCTIONS		
Benefits paid to participants	22,541,490	-
Administrative expenses	<u>496,921</u>	<u>300</u>
Total deductions	<u>23,038,411</u>	<u>300</u>
CHANGE IN NET ASSETS	(31,836,733)	(4,170)
Net assets, beginning	<u>383,550,744</u>	<u>75,904</u>
Net assets, ending	<u>\$ 351,714,011</u>	<u>\$ 71,734</u>

The Notes to Basic Financial Statements are an integral part of this statement

CITY OF CHATTANOOGA, TENNESSEE
 COMPONENT UNITS
 STATEMENT OF NET ASSETS
 June 30, 2002

	Metropolitan Airport Authority	CARTA	Southside Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	\$ 730,494	\$ 966,026	\$ 204,738	\$ 1,901,258
Investments	24,771	106,666	-	131,437
Accounts receivable	1,729,601	1,224,928	297,530	3,252,059
Due from primary government	-	-	281,474	281,474
Due from other governments	-	-	2,502,753	2,502,753
Deferred charges	239,909	-	1,752,990	1,992,899
Inventories	-	116,668	110,936	227,604
Prepaid items	106,137	155,447	155,493	417,077
Restricted assets:				
Cash and cash equivalents	223,407	331,000	-	554,407
Investments	5,445,325	-	18,524,911	23,970,236
Receivables	83,974	-	283,588	367,562
Land and other nondepreciable assets	6,317,604	3,701,249	42,055,228	52,074,081
Other capital assets, net of accumulated depreciation	34,079,930	28,067,157	62,712,919	124,860,006
Total assets	48,981,152	34,669,141	128,882,560	212,532,853
LIABILITIES				
Accounts payable and accrued liabilities	619,837	1,124,254	2,719,724	4,463,815
Contracts payable	398,271	-	-	398,271
Due to primary government	-	475,000	-	475,000
Revenue bonds payable	16,641,065	-	129,200,000	145,841,065
Original issue premium	-	-	103,195	103,195
Deferred revenue	63,554	-	-	63,554
Other liabilities	23,093	-	-	23,093
Total liabilities	17,745,820	1,599,254	132,022,919	151,367,993
NET ASSETS				
Invested in capital assets (net of related debt)	23,669,822	31,768,406	(7,556,738)	47,881,490
Restricted for:				
Debt service	5,752,706	-	9,783,100	15,535,806
Unrestricted	1,812,804	1,301,481	(5,366,721)	(2,252,436)
Total net assets	\$ 31,235,332	\$ 33,069,887	\$ (3,140,359)	\$ 61,164,860

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
 COMPONENT UNITS
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2002

	Program Revenues				Net Revenue (Expense) and Changes in Net Assets			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Metropolitan Airport Authority	CARTA	Southside Redevelopment Corporation	
METROPOLITAN AIRPORT AUTHORITY								
Airport operations	\$ 7,705,488	\$ 5,858,182	\$ -	\$ 5,475,738	\$ 3,628,432	\$ -	\$ -	\$ 3,628,432
CARTA								
CARTA operations	13,947,581	3,574,890	2,401,077	8,223,958	-	252,344	-	252,344
SOUTHSIDE REDEVELOPMENT CORPORATION								
SRC operations	<u>19,994,552</u>	<u>8,559,056</u>	<u>-</u>	<u>6,784,356</u>	<u>-</u>	<u>-</u>	<u>(4,651,140)</u>	<u>(4,651,140)</u>
Total component units	<u>\$ 41,647,621</u>	<u>\$ 17,992,128</u>	<u>\$ 2,401,077</u>	<u>\$ 20,484,052</u>	3,628,432	252,344	(4,651,140)	(770,364)
General revenues:								
Investment income					82,503	15,193	2,634,143	2,731,839
Payments from primary government					-	2,976,800	-	2,976,800
Miscellaneous					<u>1,032,047</u>	<u>62,724</u>	<u>-</u>	<u>1,094,771</u>
Total general revenues					<u>1,114,550</u>	<u>3,054,717</u>	<u>2,634,143</u>	<u>6,803,410</u>
CHANGE IN NET ASSETS					4,742,982	3,307,061	(2,016,997)	6,033,046
Net assets, beginning					<u>26,492,350</u>	<u>29,762,826</u>	<u>(1,123,362)</u>	<u>55,131,814</u>
Net assets, ending					<u>\$ 31,235,332</u>	<u>\$ 33,069,887</u>	<u>\$ (3,140,359)</u>	<u>\$ 61,164,860</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2002

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CITY OF CHATTANOOGA, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chattanooga, Tennessee (the City) was incorporated under the Private Acts of 1869. Through June 11, 1990, the City operated under the Commission form of government, consisting of an elected Mayor and four elected Commissioners, each of whom served as the head of a city department. Pursuant to an Agreed Order dated January 18, 1990, issued by the United States District Court for the Eastern District of Tennessee, Southern Division, the Board of Commissioners of the City and the offices of Mayor and Commissioner were abolished as of June 11, 1990.

The Agreed Order provided that the City Charter be amended to create the office of Mayor, with all executive and administrative authority formerly vested in the Board of Commissioners. Further, the City Council was created with all legislative and quasi-judicial authority formerly vested in the Board of Commissioners. Under the provisions of the Agreed Order, the Mayor is elected at-large and is not a member of the City Council, while the City Council is composed of nine members, with each member elected from one of nine districts within the geographic boundaries of the City.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board ("FASB") issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund types in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the GASB issued Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending after June 15, 2002. As a part of this Statement, there is a new reporting requirement regarding a local government's infrastructure (streets, bridges, traffic signals, etc.). This requirement permits an optional four-year further delay for implementation of the infrastructure-related portion to the fiscal year ending in 2006. The City elected to implement the basic reporting model required by GASB Statement No. 34 and the infrastructure-related portion of GASB Statement No. 34 during the year ended June 30, 2002.

In June 2001, GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures", which in part, addressed the need to reevaluate certain existing disclosure requirements in the context of the reporting model in Statement No. 34. The City implemented Statement No. 38 in conjunction with Statement No. 34 for the year ended June 30, 2002.

(A) Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The primary government includes separately administered organizations that are not legally separate from the City, as discussed below. Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The City has no blended component units at June 30, 2002. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a June 30 year-end.

The financial statements of EPB (the Electric Power Board) are included in the accompanying financial statements as part of the primary government because it is not legally separate from the City. The City affirms all board member appointments and approves all disbursements of EPB funds. EPB's operations are reported as an enterprise fund.

Discretely Presented Component Units

Chattanooga Metropolitan Airport Authority - The City appoints all board members and is secondarily responsible for retirement of the revenue bonds recorded as a liability of the Airport Authority. The Airport Authority is presented as a proprietary fund type.

Chattanooga Area Regional Transit Authority (CARTA) - The City appoints ten members of the twelve-member board. Although CARTA has the authority to issue its own debt, the board members serve at the City's discretion and the City finances the majority of CARTA's operating deficits. CARTA is presented as a proprietary fund type.

Southside Redevelopment Corporation - The City's Mayor, City Council Chairperson, and Chief Finance Officer are permanent members of the Board, and the City appoints the remaining board members. The Corporation has the authority to issue its own debt, but the City has agreed to finance any operating deficits of the Corporation. The Corporation is presented as a proprietary fund type.

Complete financial statements of the component units can be obtained from:

Chattanooga Metropolitan
Airport Authority
P.O. Box 22444
Chattanooga, TN 37422

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

Southside Redevelopment Corporation
427 City Hall Annex
Chattanooga, TN 37402

(B) Joint Ventures and Related Organizations

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility. The City participates in the following joint venture:

Carter Street Corporation – The Carter Street Corporation, a nonprofit organization, owns a trade center and parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The City and Hamilton County, Tennessee jointly and severally lease the trade center and parking garage. Additional information regarding the City's participation in this joint venture is disclosed in Note 12.

Related Organizations – City officials are also responsible for appointing the members of the boards of other related organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor or the City Council appoints the Board members of the Chattanooga Housing Authority, The Industrial Development Board of the City of Chattanooga, and The Health, Educational, and Housing Facility Board of the City of Chattanooga. During 2002 the City appropriated no funds to these organizations.

(C) Basic Financial Statements – GASB Statement No. 34

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fines and forfeitures, licenses and permits fees, service assessments, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity.

This government-wide focus is designed to view the City as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, public works, etc.).

Unless an internal service fund is combined with the business-type activities (deemed to be an infrequent event), totals on the proprietary fund statements should directly reconcile to the business-type activities column presented in the government-wide financial statements.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and private-purpose trust). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The focus of the GASB Statement No. 34 model is on the City as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

(D) Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are reported by generic classification within the financial statements.

The GASB Statement No. 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements and detailed in the combining section.

The City reports the following major funds and other fund types:

1) Governmental Funds:

General Fund – The General Fund accounts for all financial resources applicable to the general operations of City government that are not properly accounted for in another fund. Revenues are derived primarily from taxes and intergovernmental revenues.

Capital Projects Fund – The Capital Projects Fund accounts for the acquisition or construction of capital projects, other than those financed by Enterprise Funds, Internal Service Funds, or Trust Funds. Revenues are derived primarily from the sale of general obligation bonds and notes, loans, intergovernmental revenues, and earnings on investments.

2) Proprietary Funds:

EPB Fund – The EPB Fund accounts for the cost of providing electric utility and telecommunication service for the residential and commercial concerns of Chattanooga and Hamilton County, Tennessee. The EPB is a separately administered organization whose Board of Trustees is affirmed by the City. All disbursements of the EPB funds are approved by the City.

Interceptor Sewer System Fund – The Interceptor Sewer System Fund accounts for sanitary sewer services provided to the residents of the City. The fund's revenues are derived primarily from user fees and investment earnings.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund accounts for the costs associated with the disposal of solid waste and recyclable materials.

3) Other Fund Types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the payment of interest, principal, and related costs of long-term liabilities of the governmental activities.

Internal Service Funds - The Internal Service Funds are used to account for fleet

services and risk management activities provided to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The costs associated with providing these goods or services are usually recovered from those governmental units that receive benefits.

Pension Trust Funds - The Pension Trust Funds account for resources held in trust for defined benefit pension plans to provide disability and retirement benefits for City employees/retirees. These funds are accounted for in the same manner as business enterprises providing similar services.

Private-Purpose Trust Funds - The Private-Purpose Trust Funds account for resources, including both principal and earnings, which must be expended according to the provisions of a trust agreement. These funds are accounted for in the same manner as business enterprises providing similar services.

4) Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

(E) Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary, Fiduciary and Component Unit Financial Statements are presented on the accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on the modified accrual basis.

Accrual - Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be thirty days.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. The recipient should under most circumstances, report resources transmitted before the eligibility requirements are met as advances by the provider and as deferred revenue.

(F) Budget Policy and Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Finance Officer annually obtains information from all officers, departments, boards, commissions, and other agencies of City Government for which appropriations are made and/or revenues are collected and compiles the annual operating budget for the ensuing fiscal year beginning July 1. The compiled information, including various expenditure options and the means of financing them, is submitted to the Mayor.

During May and June, the City Council hears budget requests from agencies and departments at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage.

Prior to July, the City adopts an interim budget appropriating funds for the usual and ordinary expenses of the City Government in an amount not to exceed one-twelfth of the preceding year's operating budget for each month that the interim budget is in effect. Subsequently, the budget is legally enacted through passage of an ordinance with an operative date of July 1.

Formal budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. These formal budgets are adopted on a departmental basis and the line item estimates are from the appropriations ledger and not from a formal budget ordinance. The legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer may make interdepartmental and intradepartmental transfers within the General Fund.

Major capital facilities and improvements, which are accounted for by the City within the Capital Projects Funds, are subject to budgetary control on a project basis. Appropriations for a specific project do not lapse until completion of the project. Because of the project nature of these funds, budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented in the accompanying financial statements.

The budgets are prepared on a basis consistent with generally accepted accounting principles except that (a) encumbrances are treated as budget expenditures in the year of the commitment to purchase and (b) budgeted revenues and expenditures in the General Fund include retiree reimbursements of health insurance. For the fiscal year ended June 30, 2002, retiree reimbursements of health insurance of \$726,576 are presented as budgetary basis revenues and expenditures of the General Fund. This amount is not included in GAAP basis revenues and expenditures. Budgetary comparisons presented in the report are on this budgetary basis. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized for budgetary accounting controls in the governmental funds. Open encumbrances are reported as reservations of fund balances because the commitments will be honored in subsequent years. Encumbrances do not constitute expenditures or liabilities.

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2002, several supplemental appropriations were necessary.

(G) Assets, Liabilities and Fund Equity

1) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at various financial institutions, and short-term investments with an original maturity of three months or less.

2) Investments

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. Any change in the value of investments recorded at fair value is included in investment income. Fair value is based on quoted market prices.

3) Inventories and Prepaid Items

Inventories, principally materials, supplies, and replacement parts, are valued at cost in Governmental Funds and at the lower of cost or market in Proprietary Funds, with cost determined using the first-in, first-out (FIFO) method. The costs are recorded as expenditures at the time individual inventory items are consumed (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4) Restricted Assets

Proceeds of bonds in the enterprise funds, as well as resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, amounts due from other governments may be included as restricted assets because their use is limited by grant agreements.

5) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets

include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for infrastructure) and an estimated useful life of three years or greater.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings	5 – 30 years
Vehicles and machinery	5 – 25 years
Improvements other than buildings	15 years
Sewer system	50 years
Storm water system	50 years
Telecommunications	5 – 40 years
Public domain infrastructure	10 – 50 years

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

5) Bond Discounts and Issuance Costs

In the governmental funds, bond discounts and issuance costs are treated as period costs in the year of issue.

In proprietary funds, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

At the government-wide level any bond discounts and issuance costs in the governmental funds are adjusted and reported in the same manner as in proprietary funds.

6) Deferred Gain/Loss from Advance Refunding of Debt

In the proprietary funds (and for governmental funds in the government-wide financial statements) the difference between the new debt and the net carrying value of the old debt on refunded debt transactions is deferred. The deferred gain/loss is amortized using the effective interest method over the life of the new debt. The deferred gain/loss is offset against the new liability.

7) Fund Balance

Governmental funds report reservations of fund balance in the fund financial statements for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

(H) Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. Expenditures are recognized when the related fund liability is incurred, except for the following instances permitted by generally accepted accounting principles:

- General obligation long-term debt principal and interest are reported only when due.
- Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

1) Property Taxes

Property taxes are levied by the City annually based upon assessed valuations established by the Hamilton County Assessor of Property. The various types of property are assessed at a percentage of market value as follows:

Farm and residential real property	25%
Commercial and industrial property:	
Real	40%
Personal	30%
Public utilities real and personal property	55%

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due October 1 and become delinquent March 1. Property taxes levied for 2001 are recorded as receivables, net of estimated uncollectibles.

The receivables collected during the current fiscal year and those collected by the City Treasurer, related to tax levies for fiscal year 2002, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, 2002, are recorded as deferred revenues at June 30, 2002.

2) Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues.

Some grants and contributions consist of capital assets or resources that are restricted for capital purposes—to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

3) Investment Income

Investment income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments.

4) Compensated Absences

City employees accrue personal leave, or compensated absences, by prescribed formula based on length of service. The City limits personal leave to one hundred fifty (150) days for employees hired on or before March 27, 1990, and one hundred (100) days for employees hired thereafter. The liability for compensated absences attributable to the City's governmental funds is recorded in the government-wide financial statements. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements. Compensated absences related to business-type activities are charged to expense with a corresponding liability established in the government-wide financial statements as well as the applicable business-type funds.

5) Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets and service debt. These transactions are generally reflected as transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. Such transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund. Transactions that would be treated as revenues or expenditures if the involved organizations were external to the City are treated as revenues in the receiving fund and expenditures in the disbursing fund. Transfers within governmental activities and within business-type activities are eliminated upon consolidation.

Amounts owed to one fund or component unit by another are reported as due to/due from other funds or component units. Amounts reported in the fund financial statements as due to/due from other funds are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

6) Payments Between the City and Component Units

Resource flows (except those that affect the statement of net assets/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions—that is, as revenues and expenses. Payments to component units consist of operating subsidy payments by the City to CARTA. The City also makes lease payments to Southside Redevelopment Corporation.

7) Indirect Costs

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

8) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(I) Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt)—is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets—represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The City's policy is generally to use restricted net assets first, as appropriate opportunities arise.

Unrestricted Net Assets—represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to revisit or alter these managerial decisions.

NOTE 2. RESTATEMENTS OF PRIOR YEAR BALANCES

Fund Reclassifications

Expendable Trust Funds – GASB Statement No. 34 eliminated the use of expendable trust funds to account for assets held by the City in a trustee capacity for other governmental units or individuals. The Home Investment Fund was merged into the Community Development Fund, which has been reclassified as a Special Revenue Fund. The Chattanooga High School Medal Fund, the Ochs-Oakes Fire and Police Medal Fund, and the Ochs-Oakes High School Medal Fund were reclassified as Private-Purpose Trust Funds.

Restatements of Equity

The impact of the restatements on the fund balances/net assets as previously reported is as follows:

	<u>Special Revenue Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Expendable Trust Funds</u>
Fund balance/net assets at June 30, 2001, as previously reported	\$ 9,058,189	\$ -	\$ 3,698,832
Fund reclassifications:			
Expendable Trust Funds	<u>3,622,928</u>	<u>75,904</u>	<u>(3,698,832)</u>
Fund balance/net assets at June 30, 2001, as restated	<u>\$12,681,117</u>	<u>\$75,904</u>	<u>\$ -</u>

Note 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

The City incurred no material violations of finance related legal and contractual provisions.

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2002, the City had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

The Solid Waste/Sanitation Fund has a deficit in net assets of \$18,399,655 at June 30, 2002. This deficit resulted from the recognition of cumulative landfill closure and postclosure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both.

NOTE 4. CASH AND INVESTMENTS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurance or the Tennessee Bank Collateral Pool. The collateral must be held by the City or its agent in the City's name, or by the Federal Reserve in the City's name.

Statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

The City uses a central cash and investment pool for certain Governmental Funds and Proprietary Funds. The cash and investment pool balances are classified as cash and cash equivalents in the accompanying financial statements. The City's investment policy with respect to the cash and investment pool is to maximize investment earnings while maintaining an acceptable level of risk. Because investments in the pool must provide for the future needs of the City, flexibility and liquidity of investments are generally maintained at all times.

Cash

At June 30, 2002, the carrying amount of cash and cash equivalent deposits of the primary government was \$106,495,889 and the bank balance was \$113,949,212. The bank balance is categorized below as to credit risk. Category 1 includes deposits either covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name or by the Federal Reserve Banks acting as third party agents. Category 2 includes deposits covered by collateral held by the pledging bank's agent in the City's name. Category 3 includes deposits either uninsured, uncollateralized or covered by collateral held by the pledging bank or its agent, but not in the City's name.

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Cash and cash equivalent deposits	<u>\$113,949,212</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$113,949,212</u>	\$106,495,889
Cash on hand					306,915
Certificates of deposit held as investments					<u>(20,010,471)</u>
Total cash and cash equivalents of primary government					<u>\$ 86,792,333</u>

The primary government's cash balances are presented in the following funds:

Governmental funds	\$27,666,696
Enterprise funds	58,087,756
Internal service funds	<u>1,037,881</u>
	<u>\$86,792,333</u>

The categories of credit risk for cash and cash equivalent deposits of component units are as follows:

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Cash and cash equivalent deposits	<u>\$2,551,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,339,533</u>	<u>\$2,455,665</u>

The City did not experience any losses during the year as a result of insufficient collateral.

Investments

The City's investments are categorized below to give an indication of the credit risk at June 30, 2002. Category 1 includes investments either insured, registered in the City's name, or held by the City or its agent in the City's name. Category 2 includes investments uninsured and unregistered that are held by the pledging financial institution's trust department or agent in the City's name. Category 3 includes investments uninsured and unregistered that are held by the pledging financial institution's trust department or agent, but not in the City's name.

Governmental Funds and Enterprise Funds:

	<u>Category</u>			<u>Carrying</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	
U.S. Government Agency securities	<u>\$106,259,151</u>	<u>\$ -</u>	<u>\$ -</u>	\$106,259,151	\$106,535,399
Investments in Mutual Funds				31,000	31,000
Certificates of deposit held as investments				<u>20,010,471</u>	<u>20,009,290</u>
				<u>\$126,300,622</u>	<u>\$126,575,689</u>

Fiduciary Funds:

	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government securities	\$ 16,399,230	\$ -	\$ -	\$ 16,399,230	\$ 16,399,230
Corporate bonds	40,137,174	-	-	40,137,174	40,137,174
Foreign bonds	2,098,998	-	-	2,098,998	2,098,998
Corporate stocks	159,010,289	-	-	159,010,289	159,010,289
Other securities	<u>38,098,314</u>	<u>-</u>	<u>-</u>	<u>38,098,314</u>	<u>38,098,314</u>
	<u>\$255,744,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>255,744,005</u>	<u>255,744,005</u>
Investments in Common Trust Fund				10,147,470	10,147,470
Investments in mutual funds				<u>87,545,324</u>	<u>87,545,324</u>
				<u>\$353,436,799</u>	<u>\$353,436,799</u>

Component Units:

	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government and U.S. Government Agency securities and funds	<u>\$21,462,553</u>	<u>\$2,639,120</u>	<u>\$ -</u>	<u>\$24,101,673</u>	<u>\$24,412,808</u>

The City's investment portfolio did not experience any significant decline in fair value during the year.

NOTE 5. RECEIVABLES

Receivables at June 30, 2002, consist of the following:

	Governmental Activities Funds				Total
	General	Capital Projects	Other Governmental	Business-Type Activities	
Primary Government					
Receivables:					
Taxes	\$ 85,821,512	\$ -	\$ -	\$ -	\$ 85,821,512
Accounts	-	207,439	1,660,979	107,495	1,975,913
Notes	1,500,000	-	3,927,032	-	5,427,032
Customer service	-	-	-	39,717,654	39,717,654
Other	3,830,453	-	-	3,449,684	7,280,137
Intergovernmental	<u>18,971,805</u>	<u>756,512</u>	<u>757,139</u>	<u>732,048</u>	<u>21,217,504</u>
Gross receivables	110,123,770	963,951	6,345,150	44,006,881	161,439,752
Less:					
Allowance for uncollectibles	<u>(5,811,656)</u>	<u>-</u>	<u>-</u>	<u>(1,221,161)</u>	<u>(7,032,817)</u>
Net receivables	<u>\$104,312,114</u>	<u>\$963,951</u>	<u>\$6,345,150</u>	<u>\$42,785,720</u>	<u>\$154,406,935</u>

Taxes receivable include the uncollected property taxes from tax levies made during the current and past nine years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2002.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 is as follows:

Primary Government

Governmental Activities:	Beginning Balance	Additions	Retirements	Ending Balance
Non-Depreciable Assets:				
Land	\$ 34,868,639	\$ 1,152,819	\$ 283,836	\$ 35,737,622
Construction in Progress	<u>10,625,121</u>	<u>12,830,015</u>	<u>16,544,848</u>	<u>6,910,288</u>
Total non-depreciable assets	<u>45,493,760</u>	<u>13,982,834</u>	<u>16,828,684</u>	<u>42,647,910</u>
Depreciable Assets:				
Buildings	36,981,488	16,156,480	792,641	52,345,327
Vehicles and machinery	57,360,814	6,672,370	1,690,457	62,342,727
Improvements other than buildings	18,516,809	149,855	60,855	18,605,809
Infrastructure	<u>1,395,613,971</u>	<u>2,047,797</u>	<u>42,250</u>	<u>1,397,619,518</u>
Total depreciable assets	<u>1,508,473,082</u>	<u>25,026,502</u>	<u>2,586,203</u>	<u>1,530,913,381</u>
Less Accumulated Depreciation for:				
Buildings	25,681,496	857,178	240,247	26,298,427
Vehicles and machinery	42,410,711	4,134,541	1,530,212	45,015,040
Improvements other than buildings	11,501,932	619,420	-	12,121,352
Infrastructure	<u>222,367,274</u>	<u>35,377,566</u>	<u>33,449</u>	<u>257,711,391</u>
Total accumulated depreciation	<u>301,961,413</u>	<u>40,988,705</u>	<u>1,803,908</u>	<u>341,146,210</u>
Depreciable Assets, net	<u>1,206,511,669</u>	<u>(15,962,203)</u>	<u>782,295</u>	<u>1,189,767,171</u>
Governmental activities capital assets, net	<u>\$1,252,005,429</u>	<u>\$ (1,979,369)</u>	<u>\$17,610,979</u>	<u>\$1,232,415,081</u>
Business-Type Activities:				
Non-Depreciable Assets:				
Land	\$ 13,481,634	\$ 1,056,846	\$ 316,168	\$ 14,222,312
Construction in Progress	<u>10,757,000</u>	<u>583,335</u>	<u>1,137,000</u>	<u>10,203,335</u>
Total non-depreciable assets	<u>24,238,634</u>	<u>1,640,181</u>	<u>1,453,168</u>	<u>24,425,647</u>
Depreciable Assets:				
Buildings	53,690,725	4,200,877	658,459	57,233,143
Vehicles and machinery	351,735,377	24,388,052	11,686,723	364,436,706
Sewer system	364,065,618	11,926,640	-	375,992,258
Storm water system	36,556,315	3,030,324	-	39,586,639
Telecommunications	<u>11,778,000</u>	<u>2,643,000</u>	<u>9,000</u>	<u>14,412,000</u>
Total depreciable assets	<u>817,826,035</u>	<u>46,188,893</u>	<u>12,354,182</u>	<u>851,660,746</u>
Less Accumulated Depreciation for:				
Buildings	11,085,239	1,255,636	37,690	12,303,185
Vehicles and machinery	145,879,576	13,559,112	5,330,076	154,108,612
Sewer system	113,853,637	6,326,422	-	120,180,059
Storm water system	2,235,966	762,941	-	2,998,907
Telecommunications	<u>1,035,000</u>	<u>1,110,000</u>	<u>2,000</u>	<u>2,143,000</u>
Total accumulated depreciation	<u>274,089,418</u>	<u>23,014,111</u>	<u>5,369,766</u>	<u>291,733,763</u>
Depreciable Assets, net	<u>543,736,617</u>	<u>23,174,782</u>	<u>6,984,416</u>	<u>559,926,983</u>
Business-type activities capital assets, net	<u>\$ 567,975,251</u>	<u>\$ 24,814,963</u>	<u>\$ 8,437,584</u>	<u>\$ 584,352,630</u>

Discretely Presented Component Units

	Beginning Balance	Addition	Retirements	Ending Balance
Non-Depreciable Assets:				
Land	\$ 9,175,486	\$ 3,271,532	\$ -	\$ 12,447,018
Construction in Progress	<u>25,236,780</u>	<u>37,019,808</u>	<u>22,629,525</u>	<u>39,627,063</u>
Total non-depreciable assets	<u>34,412,266</u>	<u>40,291,340</u>	<u>22,629,525</u>	<u>52,074,081</u>
Depreciable Assets:				
Buildings	83,820,255	14,997,645	-	98,817,900
Vehicles and machinery	33,704,215	11,888,135	1,846,800	43,745,550
Improvements other than buildings	19,768,288	5,760,601	3,389	25,525,500
Infrastructure	<u>2,647,636</u>	<u>73,241</u>	<u>-</u>	<u>2,720,877</u>
Total depreciable assets	<u>139,940,394</u>	<u>32,719,622</u>	<u>1,850,189</u>	<u>170,809,827</u>
Less Accumulated Depreciation for:				
Buildings	20,463,389	3,293,705	466,462	23,290,632
Vehicles and machinery	18,782,376	3,678,328	1,085,462	21,375,242
Improvements other than buildings	613,994	471,052	-	1,085,046
Infrastructure	<u>66,191</u>	<u>132,710</u>	<u>-</u>	<u>198,901</u>
Total accumulated depreciation	<u>39,925,950</u>	<u>7,575,795</u>	<u>1,551,924</u>	<u>45,949,821</u>
Depreciable Assets, net	<u>100,014,444</u>	<u>25,143,827</u>	<u>298,265</u>	<u>124,860,006</u>
Component units capital assets, net	<u>\$134,426,710</u>	<u>\$65,435,167</u>	<u>\$22,927,790</u>	<u>\$176,934,087</u>

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	\$ 1,229,946
Public Safety	2,295,913
Public Works	36,164,797
Parks and Recreation	1,091,127
Social Services	<u>206,922</u>
Total	<u>\$40,988,705</u>
Primary Government – Business-Type Activities:	
Sewer	\$ 7,761,904
Solid Waste/Sanitation	635,835
Storm Water	859,162
Housing Management	60,210
Electric Utility	<u>13,697,000</u>
Total	<u>\$23,014,111</u>
Discretely Presented Component Units:	
Transportation Authority	\$ 3,030,545
Airport Authority	1,656,123
Southside Development	<u>2,889,127</u>
Total	<u>\$ 7,575,795</u>

NOTE 7. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2002, were as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Primary Government				
GOVERNMENTAL ACTIVITIES				
General obligation serial bonds	\$ 72,013,679	\$15,390,900	\$18,610,624	\$ 68,793,955
Notes payable	8,225,944	22,575	1,354,531	6,893,988
Capital leases payable	144,000	-	144,000	-
Compensated absences	<u>15,399,378</u>	<u>-</u>	<u>109,325</u>	<u>15,290,053</u>
Total governmental activities	<u>\$ 95,783,001</u>	<u>\$15,413,475</u>	<u>\$20,218,480</u>	90,977,996
Net deferred refunding and original issue premiums and discounts				<u>(88,961)</u>
				<u>\$90,889,035</u>
BUSINESS-TYPE ACTIVITIES				
EPB:				
Revenue bonds	\$ 40,000,000	\$ -	\$ 1,600,000	\$38,400,000
Compensated absences	<u>2,381,000</u>	<u>-</u>	<u>157,000</u>	<u>2,224,000</u>
	<u>42,381,000</u>	<u>-</u>	<u>1,757,000</u>	<u>40,624,000</u>
Interceptor Sewer System:				
General obligation serial bonds	115,758,219	24,642,272	32,457,800	107,942,691
Notes payable	6,195,012	1,903,731	283,571	7,815,172
Capital leases payable	304,399	-	16,195	288,204
Compensated absences	<u>898,317</u>	<u>-</u>	<u>58,746</u>	<u>839,571</u>
	<u>123,155,947</u>	<u>26,546,003</u>	<u>32,816,312</u>	<u>116,885,638</u>
Solid Waste/Sanitation Fund:				
General obligation serial bonds	32,952,024	10,526,302	12,139,673	31,338,653
Compensated absences	<u>493,257</u>	<u>-</u>	<u>322,368</u>	<u>170,889</u>
	<u>33,445,281</u>	<u>10,526,302</u>	<u>12,462,041</u>	<u>31,509,542</u>
Storm Water Fund:				
General obligation serial bonds	21,016,079	7,570,526	8,661,903	19,924,702
Notes payable	1,833,493	-	126,024	1,707,469
Compensated absences	<u>157,358</u>	<u>28,559</u>	<u>-</u>	<u>185,917</u>
	<u>23,006,930</u>	<u>7,599,085</u>	<u>8,787,927</u>	<u>21,818,088</u>
Total business-type activities	<u>\$221,989,158</u>	<u>\$44,671,390</u>	<u>\$55,823,280</u>	210,837,268
Net deferred refunding and original issue premiums and discounts				<u>(531,590)</u>
				<u>\$210,305,678</u>

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Discretely Presented Component Units				
Metropolitan Airport Authority:				
Revenue bonds	\$ 11,836,149	\$16,641,065	\$11,836,149	\$ 16,641,065
Southside Redevelopment Corporation:				
Revenue bonds	<u>129,200,000</u>	<u>-</u>	<u>-</u>	<u>129,200,000</u>
Total component units	<u>\$141,036,149</u>	<u>\$16,641,065</u>	<u>\$11,836,149</u>	145,841,065
Original issue premium				<u>103,195</u>
				<u>\$145,944,260</u>

In 1986, 1992, 1995, 1998, and 2002 the City refunded certain general obligation and sewage facility bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the refunded bonds are not included in the City's financial statements. At June 30, 2002, the liabilities for the bonds refunded in 1986, 1992, 1995, 1998, and 2002 were \$12,100,000, \$23,660,000, \$14,850,000, \$26,715,000, and \$57,895,000, respectively.

On March 1, 2002, the City issued \$43,880,000 in General Obligation Refunding Bonds and \$14,250,000 in General Obligation Sewer Refunding Bonds with interest rates ranging from 3.00% to 5.375% for the purpose of refunding \$57,895,000 of general obligation bonds with interest rates ranging from 5.00% to 5.90%.

The effect of refunding the general obligation bonds resulted in a net decrease in total debt service payments over the next 14 years of \$2,043,903 and an economic gain (the difference between the present values of the old and new debt service payments) of \$1,455,948. At June 30, 2002, the liability for the refunded bonds was \$57,895,000.

General Obligation Bonds - The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the City. These bonds are generally issued as 15- to 30-year serial bonds. General obligation bonds are summarized by issue as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Municipal Public Improvement, Series 1992	7.50%	\$ 155,000
Refunding Bonds, 1992 Series A	5.20% - 5.50%	6,665,555
Municipal Public Improvement, Series 1996	4.90%	525,000
Public Improvement Refunding, Series 1998	4.00% - 5.50%	7,260,000
Municipal Public Improvement, Series 2001	4.50% - 5.00%	38,797,500
Public Improvement Refunding, Series 2002	3.00% - 5.375%	<u>15,390,900</u>
Total payable from the Debt Service Fund		<u>\$68,793,955</u>

Tennessee Municipal Bond Fund Alternative Loan Program - The City acquired a \$7,430,000 loan through the Tennessee Municipal Bond Fund Alternative Loan Program for various capital improvement projects. Loan repayments are due in ten annual installments beginning June 15, 1994, through June 15, 2003, at variable rates of interest ranging from 2.95% to 5.25%. The balance at June 30, 2002, is \$900,000.

Hamilton County Series 1991 - Parking Garage - The City entered into an agreement with Hamilton County for cost sharing with respect to the parking garage for the Hamilton County/City of Chattanooga Courts/Jail complex in the principal amount of \$917,418. Hamilton County issued 15-year serial bonds to cover the cost of construction at rates ranging from 4.5% to 6.5%. Principal and interest payments are due annually to the County beginning 1992 through 2007. The remaining balance at June 30, 2002, is \$303,905.

Tennessee Municipal Bond Fund Loan - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,908,000 for the purpose of financing certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable interest rates beginning 1998 through 2012. The balance at June 30, 2002, is \$5,650,098.

Fire Hall Land Note - During 1999 the City acquired land for the construction of a fire hall. In connection with acquiring the property, the City executed a note payable to the former owners. The note bears interest at 9.5% and will be repaid over a 15-year period. The balance at June 30, 2002, is \$39,985.

Debt related to business-type activities at June 30, 2002, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
EPB:		
Electric System Revenue Bonds, Series 2000	4.25% - 5.38%	\$ 38,400,000
Interceptor Sewer System Fund:		
Sewer and Sewage Facilities, Series 1992	7.50%	600,000
Sewage Facilities Refunding Bonds, Series 1992	5.20% - 5.625%	35,604,445
Sewer and Sewage Facilities Refunding, Series 1995	4.60% - 5.125%	14,505,000
Municipal Public Improvement, Series 1998	5.00% - 5.375%	19,105,674
Municipal Public Improvement Refunding, Series 1998	4.00% - 5.50%	13,485,300
Municipal Public Improvement Refunding, Series 2002	3.00% - 4.50%	24,642,272
1992 State Revolving Sewer Loan*	3.98%	1,707,469
North West Georgia Sewer Expansion Project	4.00%	6,107,703
City of Collegedale Capital Lease	Variable	288,204
Solid Waste/Sanitation Fund:		
Municipal Public Improvement, Series 1998	5.00% - 5.375%	10,524,551
Municipal Public Improvement Refunding, Series 1998	4.00% - 5.50%	3,686,100
Municipal Public Improvement, Series 2001	4.50% - 5.00%	6,601,700
Municipal Public Improvement Refunding, Series 2002	3.00% - 5.375%	10,526,302
Storm Water Fund:		
1992 State Revolving Sewer Loan*	3.98%	1,707,469
Municipal Public Improvement, Series 1998	5.00% - 5.375%	7,864,776
Municipal Public Improvement Refunding, Series 1998	4.00% - 5.50%	2,528,600
Municipal Public Improvement, Series 2001	4.50% - 5.00%	1,960,800
Municipal Public Improvement Refunding, Series 2002	3.00% - 5.375%	7,570,526
Total payable from business-type activities		<u>\$207,416,891</u>

*State Revolving Loan Fund - The City entered into an agreement with the Tennessee Department of Health and Environment to secure a loan for the purpose of constructing a Combined Sewer Overflow Facility located at Ross's Landing. The loan will be repaid in monthly installments through 2013 with interest at 3.98%. The remaining balance at June 30, 2002, is \$3,414,938.

Georgia State Revolving Loan - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest beginning 2000 through 2020. The balance at June 30, 2002, is \$6,107,703.

Capital Leases – The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. This obligation is included in Enterprise Funds' debt below. Lease payments are due in monthly installments beginning October 1, 2000, through August 1, 2014, at variable rates of interest. The balance on this capital lease at June 30, 2002, is \$288,204.

Component Units debt at June 30, 2002, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Metropolitan Airport Authority:		
Series A Refunding Revenue Bonds, Series 2002	1.70%	\$ 12,542,891
Series B Refunding Revenue Bonds, Series 2002	1.97%	4,098,174
Southside Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.625%	<u>129,200,000</u>
Total payable from Component Units		<u>\$145,841,065</u>

Principal and interest requirements to maturity, excluding amounts for compensated absences, are as follows:

<u>Year</u>	<u>Primary Government</u>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 4,753,112	\$ 3,685,958	\$ 13,138,805	\$ 9,947,799
2004	3,946,042	3,451,875	13,105,236	9,339,592
2005	4,094,244	3,266,469	13,427,193	8,716,914
2006	4,194,068	3,077,504	13,606,358	8,077,275
2007	4,374,460	2,876,865	14,100,824	7,411,225
2008-2012	20,244,718	11,344,613	61,945,219	27,016,378
2013-2017	13,497,699	6,940,759	45,316,663	13,350,442
2018-2022	10,401,000	4,111,787	24,129,193	4,243,894
2023-2026	<u>10,182,600</u>	<u>1,307,435</u>	<u>8,647,400</u>	<u>976,565</u>
	<u>\$75,687,943</u>	<u>\$40,063,265</u>	<u>\$207,416,891</u>	<u>\$89,080,084</u>

<u>Year</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2003	\$ 575,000	\$ 7,494,863
2004	505,000	7,483,535
2005	545,000	7,473,587
2006	585,000	7,462,850
2007	3,200,000	7,387,076
2008-2012	19,768,174	34,552,845
2013-2017	24,545,000	29,719,155
2018-2022	28,767,891	23,143,190
2023-2027	33,210,000	14,677,409
2028-2031	<u>34,140,000</u>	<u>3,977,838</u>
	<u>\$145,841,065</u>	<u>\$143,372,348</u>

NOTE 8. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2002, outstanding funds advanced by TVA totaled \$3,039,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2002, the outstanding receivables for loans made from these funds amounted to \$2,952,000. A total of approximately \$78,336,000 has been loaned to EPB's customers since the programs were begun in 1977.

NOTE 9. EMPLOYEE RETIREMENT SYSTEMS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Firemen's and Policemen's Insurance and Pension Fund, and EPB Pension Plan). All employees are eligible to participate in one of these retirement benefit plans. The City acts as Trustee for the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Plan, which are included in the accompanying financial statements as pension trust funds. The City does not administer the assets of the EPB Pension Plan.

The following is a summary of each of these plans:

City of Chattanooga Administered Pension Plans

Significant Accounting Policies:

Basis of Accounting

The financial statements of the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Plan Descriptions:

(1) City of Chattanooga General Pension Plan

The City maintains a single-employer defined benefit pension plan for general City employees. Each participant is required to contribute 2 percent of earnings. The remaining cost of administering the plan is borne by the City.

The normal retirement benefit is 2 percent of average earnings multiplied by years of credited service up to twenty (20) years plus one percent of average earnings multiplied by years of credited service in excess of twenty (20) years.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the General Pension Plan, a statement of impact from the actuary, and a favorable opinion of the Office of Mayor.

The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized 2.5 percent for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit.

A deferred retirement option plan is now available providing alternative benefits for up to 3 years of credited service to eligible members with at least 26 years of credited service.

(2) Firemen's and Policemen's Insurance and Pension Fund

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing approximately 12 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. Increased court costs on all forfeitures of fines or monies or on convictions of violating any City ordinances are recorded as additional contributions to the Plan. The cost of administering the plan is borne by the City.

The normal retirement benefit is 68.75 percent of average base salary, where average base salary is based on the three-year period of service yielding the highest arithmetic average of the participant's salary history. For service beyond 25 years, the benefit is increased 1.25 percent per year.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. These benefit provisions may be amended by City ordinance upon recommendation from the Board of Trustees of the Firemen's and Policemen's Insurance and Pension Fund and a favorable opinion of the Office of the Mayor.

The normal retirement date is the first day of the month following the participant's completion of 25 years of credited service. Reduced benefit provisions are available for those participants who have attained age 55 and have completed at least 10 years of credited service. In the event of death, job-related or non-job-related disability, participants who are not yet eligible for normal retirement benefits can receive a percentage of their salary, based on a formula using the three-year period of service yielding the highest arithmetic average of the participant's salary history.

A deferred retirement option plan is now available providing alternative benefits for up to 3 years of credit service to eligible members who have 25 years of credited service.

Current membership in each of these plans was comprised of the following as of June 30, 2002:

<u>Group</u>	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Retirees and beneficiaries currently receiving benefits	647	609
Vested terminated employees	48	3
Active employees	1,596	784
Actuarial update	1-1-2002	1-1-2002

Funding Policy and Other Information:

The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the employer. The City contributes to each plan at an actuarially determined rate. The employer's annual pension cost for the current year and related information for each plan is as follows:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Contributions rates for employer	-	12.24%
Contribution rates for plan members	2%	8.00%
Annual pension cost	\$ 19,882	\$1,977,696
Contributions made by employer	-	3,927,000
Contributions made by plan members	1,015,916	2,320,978
Actuarial valuation date for current contributions	January 1, 2002	January 1, 2002
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	40 Years Open	40 Years Open
Asset valuation method	Market Value, As Adjusted	5-Year Average
Actuarial assumptions:		
Investment rate of return	7.50%	8.25%
Projected salary increases	5.50%	4.25%
Inflation rate	3.00%	4.25%

The City's annual pension cost and net pension obligation (asset) related to the General Pension Plan for the current year were as follows:

Annual required contribution	\$ -
Interest on net pension obligation (asset)	(338,858)
Adjustment to annual required contribution	<u>358,740</u>
Annual pension cost	19,882
Contributions made	<u>-</u>
Increase in net pension obligation (asset)	19,882
Net pension obligation (asset) at beginning of year	<u>(4,518,108)</u>
Net pension obligation (asset) at end of year	<u>\$(4,498,226)</u>

Trend Information:

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
General Pension Plan	12/31/01	\$ 19,882	N/A	\$(4,498,226)
	12/31/00	17,090	N/A	(4,518,108)
	12/31/99	1,327,689	119.15%	(3,883,569)
Firemen's and Policemen's Fund	12/31/01	1,977,697	100.00%	-
	6/30/00	3,749,260	100.00%	-
	6/30/99	3,781,998	100.00%	-

Financial Reports:

The City of Chattanooga administered plans do not issue stand-alone financial reports and are not included in the report of a public employee retirement system or a report of another entity. The plan financial statements are as follows:

Combining Statement of Plan Net Assets:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ (1,199,610)</u>	<u>\$ -</u>	<u>\$ (1,199,610)</u>
Receivables:			
Accrued income	475,811	730,182	1,205,993
Contributions:			
Employee	79,589	-	79,589
Due from plan custodian	<u>-</u>	<u>132,950</u>	<u>132,950</u>
Total receivables	<u>555,400</u>	<u>863,132</u>	<u>1,418,532</u>

Investments, at fair value:			
U.S. Government securities	\$ 4,365,387	\$ 12,033,843	\$ 16,399,230
Municipal bonds	-	168,261	168,261
Corporate bonds	14,150,496	25,986,678	40,137,174
Foreign bonds	-	2,098,998	2,098,998
Asset-backed securities	11,357,176	2,077,301	13,434,477
Corporate stocks	82,141,730	76,868,559	159,010,289
Mutual funds	43,410,057	44,083,821	87,493,878
Temporary investments	-	13,646,804	13,646,804
Investment in Common Trust Fund	-	10,147,470	10,147,470
Other investments	<u>9,953,772</u>	<u>895,000</u>	<u>10,848,772</u>
Total investments	<u>165,378,618</u>	<u>188,006,735</u>	<u>353,385,353</u>
Total assets	<u>164,734,408</u>	<u>188,869,867</u>	<u>353,604,275</u>
LIABILITIES			
Due to plan custodian	-	1,361,398	1,361,398
Accrued expenses	<u>280,008</u>	<u>248,858</u>	<u>528,866</u>
Total liabilities	<u>280,008</u>	<u>1,610,256</u>	<u>1,890,264</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$164,454,400</u>	<u>\$187,259,611</u>	<u>\$351,714,011</u>

Combining Statement of Changes in Plan Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	\$ -	\$ 3,927,000	\$ 3,927,000
Employee	<u>1,015,916</u>	<u>2,320,978</u>	<u>3,336,894</u>
Total contributions	<u>1,015,916</u>	<u>6,247,978</u>	<u>7,263,894</u>
Investment income:			
Net appreciation (depreciation) in fair market value of investments	(22,820,651)	(1,622,203)	(24,442,854)
Interest	2,645,538	3,326,159	5,971,697
Dividends	<u>1,509,383</u>	<u>2,711,306</u>	<u>4,220,689</u>
	(18,665,730)	4,415,262	(14,250,468)
Less investment expense	(890,205)	(921,543)	(1,811,748)
Net investment income (loss)	<u>(19,555,935)</u>	<u>3,493,719</u>	<u>(16,062,216)</u>
Total additions	<u>(18,540,019)</u>	<u>9,741,697</u>	<u>(8,798,322)</u>

DEDUCTIONS			
Benefits paid to participants	\$ 6,121,315	\$ 16,420,175	\$ 22,541,490
Administrative expenses	<u>236,627</u>	<u>260,294</u>	<u>496,921</u>
Total deductions	<u>6,357,942</u>	<u>16,680,469</u>	<u>23,038,411</u>
NET INCREASE (DECREASE)	(24,897,961)	(6,938,772)	(31,836,733)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	<u>189,352,361</u>	<u>194,198,383</u>	<u>383,550,744</u>
End of year	<u>\$164,454,400</u>	<u>\$187,259,611</u>	<u>\$351,714,011</u>

EPB Pension Plan

Plan Description and Provision:

EPB's Retirement Plan (the "Plan") is a Single Employer Defined Benefit Pension Plan administered by an individual designated by EPB. A stand-alone financial report is not issued for this plan. The Plan provides retirement benefits to Plan members. Article VIII of EPB of Chattanooga Retirement Plan assigns the authority to establish and amend benefit provisions to EPB.

Funding Policy:

Contribution requirements of Plan members and the EPB are established and can be amended by the EPB. The Plan does not require Plan members to make a contribution. The EPB is required to contribute at an actuarially determined rate, the current rate is 5.12% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation:

EPB's annual pension cost of the Plan for the current year was \$1,148,796. There is no net pension obligation as EPB has contributed the annual required contribution, adjusted with interest, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2001, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.5% per year compounded annually, (c) no postretirement benefit increases and (d) a discount rate of 8.5%.

Trend Information:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$1,148,796	100%	\$ -
6/30/01	1,042,000	100%	-
6/30/00	766,000	100%	-

EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 10 percent of salary in a tax-deferred savings plan. EPB contributes up to 3 percent of an employee's salary. EPB contributions are fully vested and amounted to \$590,000 in 2002.

Pension Plans of Component Units

CARTA is the only component unit with a separate defined benefit pension plan, and complete pension disclosures are in CARTA's separately-issued financial statements. Actuarially determined employer contribution requirements were met for the year ended June 30, 2002. Condensed disclosures for CARTA's defined benefit pension plan are as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$258,529	100%	\$ -
6/30/01	194,860	100%	-
6/30/00	298,391	100%	-

Postretirement Benefits

The City provides postretirement health and medical benefits for retirees and their dependents in accordance with the applicable City ordinance. Substantially all of the City's employees may become eligible for the benefits if they reach normal retirement age while working for the City. At June 30, 2002, there were 747 employees who had retired and were receiving healthcare benefits. The City is insured for a portion of these benefits. All the associated costs are accounted for in the General Fund. For the year ended June 30, 2002, the City recognized expenditures of approximately \$3,939,008, which was offset by \$726,576 of retiree contributions.

NOTE 10. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets in the plan are recorded at market value but are administered by private corporations under contract with the City. It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The following is a summary of activity in the Plan for the year:

Asset balance at July 1, 2001	\$13,424,816
Deferrals of compensation	1,029,602
Earnings (losses)	(1,014,706)
Withdrawals	(1,758,082)
Administrative expenses	<u>(346)</u>
Asset balance at June 30, 2002	<u>\$11,681,284</u>

NOTE 11. COMMITMENTS AND CONTINGENCIES

The City and its component units are parties to various lawsuits and claims in the ordinary course of their operations. Management believes that the potential adverse impact of these proceedings would not be material to the combined financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. City management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and storm water systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2002. The total contractual commitments outstanding as of June 30, 2002, aggregated approximately \$29,800,000. The City has sufficient funds available to cover these commitments.

NOTE 12. JOINT VENTURE

The Industrial Development Board of Chattanooga, Tennessee, issued Lease Rental Revenue Bonds, Series 1985, dated March 1, 1985, in the amount of \$17,950,000 for the purpose of providing funds to pay the principal and interest on certain bond anticipation notes issued in anticipation of the issuance of the Series 1985 bonds. The proceeds of said bond anticipation notes were used to provide funds for the acquiring, construction, improving, and equipping of certain public building facilities comprised of a trade center and a parking garage owned by Carter Street Corporation, a not-for-profit organization, whose board consists of five members. Two of the members are appointed by the County Executive and two by the Mayor of Chattanooga. The appointment of the fifth member, who serves as chairman, is agreed on by the County Executive and the Mayor.

The City and the County of Hamilton, Tennessee, as tenants in common, have jointly and severally, signed a lease agreement with the Corporation to lease from the Corporation the trade center and parking garage. The total amount of rent payable by the City and County as tenants is designed to fund the debt of the Corporation and a portion of the Corporation's operating expense. The lease shall remain in full force and effect until such time as all Lease Rental Revenue Bonds, issued on behalf of the Corporation, have been fully paid, or provision has been made for such payment. The lease may be terminated prior to such payment if the City or County shall exercise their respective options under the terms of the lease to purchase the project. Upon the repayment of the bonds, the City and County will have equity interests in the Corporation.

While the bonds owed by the Corporation do not constitute an indebtedness of the City or the County, under the terms of the lease the City and County are unconditionally obligated to make rental payments (one-third by the County and two-thirds by the City) to the Corporation which, in the aggregate, will be sufficient to pay principal and interest on the bonds. For the fiscal year ended June 30, 2002, lease payments from the City's General Fund were \$1,426,092.

The following is a schedule of future minimum lease payments required from the City under the terms of the lease:

2003	\$1,420,765
2004	1,420,529
2005	1,419,100
2006	1,415,389

Complete financial statements can be obtained from:

Carter Street Corporation
P.O. Box 6008
Chattanooga, TN 37401

Condensed financial information for Carter Street Corporation as of June 30, 2002, is as follows:

ASSETS

Cash	\$ 639,722
Accounts receivable	1,938,903
Inventories	158,553
Prepaid items	24,503
Premises and equipment	14,258,684
Other assets	<u>89,530</u>
Total assets	<u>\$17,109,895</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable and accrued expenses	\$ 169,535
Accrued interest	144,100
Advance deposits	67,186
Bonds payable	<u>7,689,040</u>
Total liabilities	<u>8,069,861</u>

FUND EQUITY

Contributed capital:	
City of Chattanooga	3,557
Hamilton County	3,557
Urban development action grants	5,997,326
Marriott Corporation	<u>19,227</u>
	6,023,667
Retained earnings	<u>3,016,367</u>
Total fund equity	<u>9,040,034</u>
Total liabilities and fund equity	<u>\$17,109,895</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Total operating revenues	\$ 3,753,401
Total operating expenses	<u>4,967,794</u>
Gain from operations	(1,214,393)
Nonoperating revenues	2,846,807
Nonoperating expenses	<u>456,050</u>
Net income	1,176,364
Fund equity at July 1, 2001	<u>7,863,670</u>
Fund equity at June 30, 2002	<u>\$ 9,040,034</u>

NOTE 13. SEGMENTS OF NONMAJOR ENTERPRISE ACTIVITIES

The following condensed financial statements are presented for nonmajor enterprise funds as of June 30, 2002.

	<u>Storm Water</u>	<u>Housing Management</u>	<u>Total</u>
Condensed Statement of Net Assets			
Assets:			
Current assets	\$ 5,862,337	\$ 128,423	\$ 5,990,760
Restricted assets	730,931	491,024	1,221,955
Capital assets	37,860,482	5,883,405	43,743,887
Other assets	<u>149,047</u>	<u>-</u>	<u>149,047</u>
Total assets	<u>44,602,797</u>	<u>6,502,852</u>	<u>51,105,649</u>
Liabilities:			
Current liabilities	1,942,585	2,603,846	4,546,431
Noncurrent liabilities	<u>20,703,048</u>	<u>-</u>	<u>20,703,048</u>
Total liabilities	<u>22,645,633</u>	<u>2,603,846</u>	<u>25,249,479</u>
Net assets:			
Invested in capital assets, net of related debt	16,967,633	5,883,405	22,851,038
Restricted	660,250	660,250	-
Unrestricted	<u>4,329,281</u>	<u>(1,984,399)</u>	<u>2,344,882</u>
Total net assets	<u>\$21,957,164</u>	<u>\$ 3,899,006</u>	<u>\$25,856,170</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$ 5,464,578	\$1,025,353	\$ 6,489,931
Operating expenses	(2,549,508)	(816,156)	(3,365,664)
Depreciation	<u>(859,162)</u>	<u>(60,210)</u>	<u>(919,372)</u>
Operating income (loss)	2,055,908	148,987	2,204,895
Nonoperating revenues (expenses):			
Intergovernmental	109,904	1,796,583	1,906,487
Interest income	-	228	228
Interest expense	(1,140,264)	(50,235)	(1,190,499)
Other income (expense)	<u>528,244</u>	<u>2,003,443</u>	<u>2,531,687</u>
Change in net assets	1,553,792	3,899,006	5,452,798
Net assets, beginning	<u>20,403,372</u>	<u>-</u>	<u>20,403,372</u>
Net assets, ending	<u>\$21,957,164</u>	<u>\$3,899,006</u>	<u>\$25,856,170</u>
Condensed Statement of Cash Flows			
Net cash provided (used) by:			
Operating activities	\$ 2,462,575	\$ 260,746	\$ 2,723,321
Noncapital financing activities	697,283	-	697,283
Capital and related financing activities	(5,533,480)	(154,138)	(5,687,618)
Investing activities	<u>2,576,710</u>	<u>228</u>	<u>2,576,938</u>
Net increase	203,088	106,836	309,924
Cash and cash equivalents, beginning	<u>5,232,336</u>	<u>-</u>	<u>5,232,336</u>
Cash and cash equivalents, ending	<u>\$ 5,435,424</u>	<u>\$ 106,836</u>	<u>\$ 5,542,260</u>

NOTE 14. INTERFUND RECEIVABLES AND PAYABLES

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service	General Fund	\$1,499,095
Capital Projects Fund	General Fund	6,431,638
Solid Waste/Sanitation Fund	Storm Water Fund	10,671
Liability Insurance Fund	General Fund	<u>1,495,833</u>
		<u>\$9,437,237</u>

NOTE 15. INTERFUND TRANSFERS

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Public Library Fund	General Fund	\$ 2,405,725
Human Services Fund	General Fund	1,481,641
Debt Service Fund	General Fund	8,964,342
Capital Projects Fund	General Fund	9,981,506
State Street Aid	General Fund	320,000
Solidwaste/Sanitation Fund	General Fund	5,159,292
Storm Water Fund	General Fund	683,952
General Fund	Capital Projects Fund	963,361
Debt Service Fund	Capital Projects Fund	3,890
Capital Projects Fund	Community Development Fund	153,301
Solidwaste/Sanitation Fund	Debt Service Fund	18,536
Interceptor Sewer Fund	Debt Service Fund	43,394
Storm Water Fund	Debt Service Fund	13,331
Capital Projects Fund	Debt Service Fund	173,527
Capital Projects Fund	Human Services Fund	<u>367,307</u>
Total interfund transfers		<u>\$30,733,105</u>

NOTE 16. CONDUIT DEBT OBLIGATIONS

From time to time, the Industrial Development Board of the City of Chattanooga has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2002, 119 series of Industrial Revenue Bonds had been issued. The principal amount of the series issued after July 1, 1995, was \$188,000,000. The aggregate principal amounts payable for the 108 series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$253,648,700.

NOTE 17. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of closed landfills (Summit and 36th Street). State and federal regulations require the City to place a final cover on all landfills after closure, and the City must perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill closure and postclosure care costs based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs of \$8,705,591 at June 30, 2002, is based on the use of 100 percent of the capacity of the Summit landfill, and 64 percent of the capacity of the City landfill. The estimated remaining life of the City landfill is five years. The City will recognize the remaining estimated costs of closure and postclosure care of \$1,738,134 as the remaining capacity is used. The estimated total current cost of the landfill closure and postclosure care of \$10,443,725 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2002. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

NOTE 18. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. The General Fund accounts for all exposures, except for torts, which are accounted for in the Liability Insurance Fund. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program. The premiums are used to reduce the amount of claims expenditures reported in the respective funds. As of June 30, 2002, such interfund premiums did not exceed reimbursable expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

City employees eligible for medical benefits are fully insured by Blue Cross/Blue Shield of Tennessee.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liabilities for claims other than tort claims are reported in governmental funds rather than the general long-term debt account group because they are expected to be liquidated with expendable available financial resources.

Interfund premiums in the Liability Insurance Fund are based on the insured funds' claims experience. Premiums are adjusted to cover all reported claims. It is anticipated that the settlement of an individual claim will be funded by premiums subsequent to the filing of the claim and prior to its settlement. Changes in the balances of claims liabilities during the year are as follows:

	<u>General Fund</u>	<u>Liability Insurance Fund</u>
Unpaid claims, June 30, 2000	\$ 912,200	\$ 884,000
Incurred claims (including IBNRs)	14,491,981	1,658,877
Claim payments	<u>(14,942,806)</u>	<u>(444,877)</u>
Unpaid claims, June 30, 2001	461,375	2,098,000
Incurred claims (including IBNRs)	17,075,914	534,397
Claim payments	<u>(17,111,025)</u>	<u>(459,397)</u>
Unpaid claims, June 30, 2002	<u>\$ 426,264</u>	<u>\$2,173,000</u>